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State Bank of India: Big clean-up act

HT Media: In-line 4QFY11 but disappointment elsewhere

Update

Strategy: Booking profits and losses

News Round-up

- ▶ Need to delink gas, crude prices : Oil ministry to panel. ONGC (ONGC IN), Reliance (RIL IN) among the companies likely to be affected by deregulation. Once implemented, producers will get exposed to market forces and the price discovery will purely be on demand-supply situation. (BSTD)
- ▶ After entering the polymer business, dominated by RIL (RIL IN), IOC (IOCL IN) plans to invest USD 1 bn in a polypropylene project at its Paradip refinery. (BSTD)
- ▶ Tata Motors (TTMT IN) has five months to work out a solution to the Singur imbroglio, to save the lease agreement from being terminated. (BSTD)
- ▶ Tata Motors (TTMT IN) will be launching eight more models of its Prime (World Truck) range this year. (FNLE)
- ▶ Infosys Technologies (INFO IN) has started offering Indian cooperative banks a cloud version of its core banking product Finacle, dabbling into what some experts said is a USD 444 mn market. (FNLE)
- ▶ SBI (SBIN IN) net profit slumps 99% to USD 4.62mn for the quarter ended March 31, 2011, a number that is one of the lowest among listed banks. (ECNT)
- ▶ BSNL has started talks on synergising operations with MTNL (MTNL IN) which offers telecom services in Delhi and Mumbai. (BSTD)
- ▶ MTNL (MTNL IN) is planning to restructure its USD 1.55 bn loans taken for buying 3G and BWA spectrum last year. (FNLE)
- ▶ JSW Steel (JSTL IN) will raise about USD 2.35 bn debt in the current financial year for its proposed steel plant in West Bengal. (BSTD)
- ▶ Dr Reddy's Laboratories (DRRD IN) gets rights to sell, distribute Deflux in India. (FNLE)
- ▶ Force Motor (FML IN) is planning to launch an 8-9 seater premium Multi-Purpose Vehicle (MPV) by next year. (THBL)
- ▶ Aurobindo Pharma Australia Private Ltd, a wholly-owned subsidiary of Aurobindo Pharma Ltd (ARBP IN), has received approval for Risperidone and Alendronate tablets from the Therapeutic Goods Administration (TGA), Australia. (THBL)
- ▶ Bartronics (BAIL IN) may go for divestment of subsidiaries post revamp. To invest USD 22 mn on expansion. (THBL)

Source: ECNT= Economic Times, BSTD = Business Standard, FNLE = Financial Express, THBL = Business Line.

EQUITY MARKETS

India	Change %			
	17-May	1-day	1-mo	3-mo
Sensex	18,137	(1.1)	(5.0)	(0.4)
Nifty	5,439	(1.1)	(5.1)	(0.4)
Global/Regional indices				
Dow Jones	12,480	(0.5)	2.3	0.7
Nasdaq Composite	2,783	0.0	1.7	(1.8)
FTSE	5,861	(1.1)	(0.2)	(3.6)
Nikkei	9,651	0.9	1.0	(11.0)
Hang Seng	22,960	0.3	(3.7)	(2.7)
KOSPI	2,125	1.1	(0.6)	5.6
Value traded – India				
Cash (NSE+BSE)	134		149	152
Derivatives (NSE)	1,324		1,276	1,253
Deri. open interest	1,474		1,385	1,601

Forex/money market

	Change, basis points			
	17-May	1-day	1-mo	3-mo
Rs/US\$	45.2	29	71	(36)
10yr govt bond, %	8.3	(3)	20	18
Net investment (US\$m)				
	13-May	MTD	CYTD	
FIs	(825)	(1,544)	(628)	
MFs	3	100	(282)	

Top movers -3mo basis

Best performers	Change, %			
	17-May	1-day	1-mo	3-mo
ABB IN Equity	863.8	0.5	4.8	30.0
UNTP IN Equity	167.8	1.7	9.1	23.3
HH IN Equity	1802.8	(3.2)	(3.3)	23.1
ITC IN Equity	187.9	0.9	(1.2)	20.6
NEST IN Equity	4116.7	(1.4)	10.5	19.3
Worst performers				
SHTF IN Equity	639.1	3.6	(22.1)	(15.1)
SBIN IN Equity	2414.7	(7.7)	(12.2)	(12.5)
EDSL IN Equity	428.7	(0.5)	(6.3)	(12.4)
NACL IN Equity	90.2	(0.6)	(5.8)	(11.6)
IDFC IN Equity	127.5	(1.4)	(17.4)	(11.0)

Big clean-up act. SBI reported sharply lower earnings for the quarter, but addressed most of its pending issues. Full impact of pension was taken through reserves/P&L, a majority of gratuity is provided for and slippages have been aggressively reported in SME/agri, on account of the move to system recognition. Higher slippages and somewhat lower margins in 4Q were key disappointments. The new management guides for better margins (has aggressively raised lending rates recently) and lower slippages. The earnings profile will remain strong in FY2012E and FY2013E. Valuations at 1.2X FY2013E book and 7X (adjusted) EPS are comforting but expect subdued price performance in the near term. Maintain BUY with TP of ₹3,100 (₹3,400 earlier).

Company data and valuation summary

State Bank of India

Stock data

52-week range (Rs) (high,low)	3,515-2,138
Market Cap. (Rs bn)	1,533.1

Shareholding pattern (%)

Promoters	59.4
FIs	16.2
MFs	4.1

Price performance (%)	1M	3M	12M
Absolute	(14.0)	(13.2)	7.3
Rel. to BSE-30	(8.1)	(11.4)	(0.4)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	129.1	212.3	264.6
EPS growth (%)	0.8	64.4	24.6
P/E (X)	18.7	11.4	9.1
NII (Rs bn)	325.3	359.5	408.0
Net profits (Rs bn)	82.6	135.9	169.3
BVPS	1,015.5	1,190.4	1,415.2
P/B (X)	2.4	2.0	1.7
ROE (%)	12.6	19.3	20.3
Div. Yield (%)	1.2	1.3	1.4

Operation clean-up resulting in sharp decline in profitability; expect strong recovery in FY2012E

SBI reported poor earnings as the focus of the new management was to solve all critical issues facing the bank—(1) the bank took a charge of ₹79.3 bn through reserves and ₹8.8 bn through P&L during the current quarter for pensions on revised salary costs, (2) ₹5 bn of standard asset provisions for teaser loans, (3) ₹2.5 bn impact on revised costs on provident fund (increase of 1% to 9.5% for FY2011) resulting in margin decline, (4) higher slippages of 3.1% (annualized), resulting in higher loan-loss provisions and de-recognition of interest income, and (5) tax rate is abnormally high as the benefit of provisions do not have the benefit of tax deductions.

On the back of higher charges taken in the current year, we expect a strong earnings growth trajectory for the bank in FY2012E and we build over 38% CAGR in FY2012-13E. We have revised our estimates marginally, by about 2-5% in FY2012-13E, as we don't see any further large one-offs barring provisions on restructured loans. However, as the bank has taken the pension hit through reserves, our standalone BV is lower by 12% in FY2012E. Valuations at 1.2X FY2013E consolidated book remain attractive. BUY with a TP of ₹3,100 (₹3,400 earlier).

Margins decline on rising deposits costs and decline in loan yields

Margins for the quarter declined sharply to 3.1% from 3.6% in the previous quarter as costs increased while lending yields declined. Cost of deposits increased to 5.3% from 5.2% while lending yields (KS-calc) declined 17 bps, as we believe slippages in the current quarter resulted in higher de-recognition of interest income. Also, there is an impact of ₹2.5 bn on interest expense (about 15 bps on margins) due to revised interest rates on provident funds (fully provided in the current quarter) while interest on income from tax refunds was lower during the quarter (about 15 bps). Franchise strength is playing out well for the bank as mobilization of CASA deposits continues to remain impressive in a rising interest rate environment. CASA ratio improved 50 bps qoq to 49%. CD ratio for the quarter was flat at 83% (domestic CD ratio at 76% compared to 77% in December 2010).

BUY

MAY 17, 2011

RESULT

Coverage view: **Attractive**

Price (Rs): **2,415**

Target price (Rs): **3,100**

BSE-30: **18,137**

QUICK NUMBERS

- NII grew by 20% yoy; NIMs decline by about 50 bps qoq
- Slippages higher at 3.1%
- Provided ₹79.3 bn through reserves for pension costs

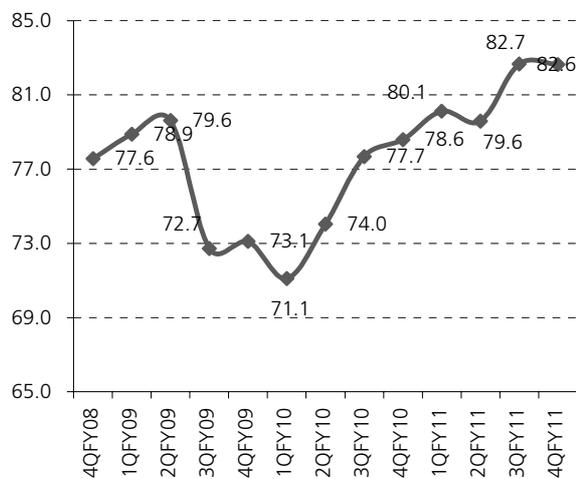
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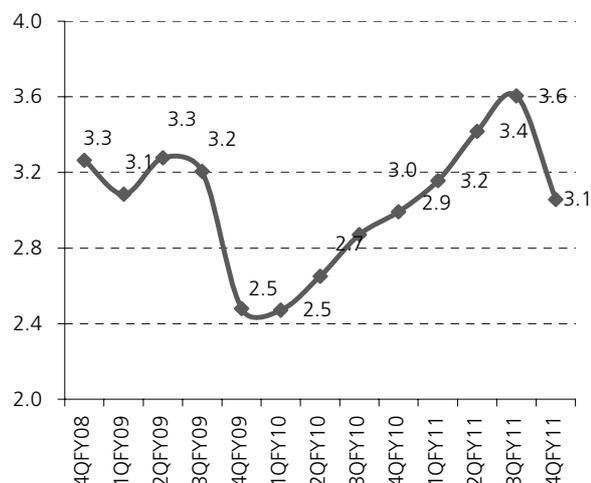
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Credit / Deposit Ratio has been stable for the quarter
March fiscal year-ends, 4QFY08-4QFY11 (%)



Source: Kotak Institutional Equities, Company

NIMs impacted with lower lending yields and increase in costs
March fiscal year-ends, 4QFY08-4QFY11 (%)



Source: Kotak Institutional Equities, Company

Slippages rise in SME and agriculture; restructured loans slippage at 15%

Gross NPLs increased by 8% qoq to ₹253 bn (3.3% of loans) compared to ₹234 bn (3.2% of loans in December 2010) with slippages coming from the agriculture and SME portfolio. Net NPLs increased by 6% qoq to ₹123 bn (1.6% of loans) compared to ₹117 bn.

Slippages were higher for the quarter at 3.1% for December 2010, higher mainly due to slippages from SME and agriculture portfolio. The bank indicated that slippages from these two portfolios were driven by a transition to system-based NPLs. The management had indicated that while it was one of the first few PSU banks to have moved to system-based NPL recognition, the current slippage was due to further strengthening of its processes of reporting NPLs. We expect slippages to decline to 2% in FY2012E and 1.6% in FY2013E. Outstanding restructured loans was at ₹343 bn (4.5% of loans). Fresh restructuring for the year was at ₹47 bn (includes special dispensation for airlines). Slippage from the restructured book is at 15%.

SME and agriculture has seen a sharp rise in slippage in the current quarter

	Corporate	International	SME	Agri	Retail	Total
1QFY11	5	0	11	13	11	41
2QFY11	19	5	12	10	7	53
3QFY11	16	2	2	5	6	32
4QFY11	19	5	14	13	6	56
Total Slippages in FY2011	59	12	39	40	31	181
Loans - FY2010	2,244	971	975	783	1,347	6,319
Slippages (% , annualised)	2.6	1.3	4.0	5.1	2.3	2.9

Source: Kotak Institutional Equities

High provisions due to fresh slippages and teaser loans; will remain high in 1QFY12E as well

Overall provisions remained higher for the quarter as the bank provided for fresh slippages and standard asset provisions on teaser loans. Loan-loss provisions for the quarter increased to 1.8% compared to 0.9% in 3QFY11. SBI made a provision of ₹5 bn for teaser loans in the current quarter on their outstanding housing loans of about ₹250 bn. The bank wrote off nearly ₹10 bn of loans in the current quarter. Provision coverage (including write-off) was flat qoq at 65% while reported coverage ratio has improved marginally to 51% excluding write-offs from 50% in December 2010.

We expect overall provisions to decline to 0.9% of loans in FY2012E from 1.4% in FY2011 factoring the (1) provisions required of about 1.6% of total restructured loans of ₹343 bn, (2) marginally higher provisions for sub-standard and doubtful loans. The current provisioning policy is in line for sub-standard at 15% but we expect the bank to increase this higher to maintain some cushion, and (3) increasing coverage ratios from current levels.

Loan growth below average mainly due to low growth of international loans

Overall loans grew by 20% yoy and 4% qoq to ₹7.7 tn as of March 2011 mainly due to lower growth in international loans, as it was negatively impacted on exchange rate. Agriculture loans grew by 21% yoy, SME grew by 23% yoy, mid-corporate segment by 19% yoy and retail loans grew by 22% yoy. International loans grew by 13% yoy mainly due to negative impact on currency translation. Housing loans grew by 22% yoy with the teaser loans portfolio of about ₹250 bn. We are building loan growth at 17% CAGR for FY2012-13E as higher lending rates start impacting loan growth.

Liability profile impressive; CASA share improved 40 bps qoq

While overall deposits grew by 16% yoy and 6% qoq to ₹9.3 tn, CASA mobilization continues to remain impressive. Despite pressure visible in the industry on CASA ratio, SBI has been able to improve its CASA ratio by 40 bps qoq to 49% as of March 2011. Growth in current account deposits has been impressive at 22% yoy as the bank benefits from government-related flows in the last quarter. Savings deposits grew by 22% yoy though has been flat for the quarter. Bulk deposit to total deposits is at about 10%.

Cost-income ratio at 53%; provides impact of revised wages through network

Cost-income ratio for the quarter was at 53%, marginally ahead of expectations, as the bank made higher provisions for pension during the quarter. The bank estimated the final impact on the pension (due to revision in staff salary) to be ₹117.1 bn. The bank has provided ₹2.47 bn through P&L and the balance (of ₹79.3 bn) has been charged through reserves adjusting for earlier provisions. The partial provisions through P&L were for current-year expenses with the balance pertaining to previous years—hence routed through reserves resulting in decline in book value per share for the bank. The impact of revised gratuity cost (due to revision in staff salary and increase in limit) has been estimated at ₹19.7 bn, of which ₹15.7 bn has been provided for in FY2011 (limited provision in the current quarter). We are being conservative on our estimates on operating leverage for the bank with cost-income ratio flat at 47% in FY2012-13E despite the bank completing peak infrastructure investments and higher one-off provisions in FY2011 on one-off gratuity charges.

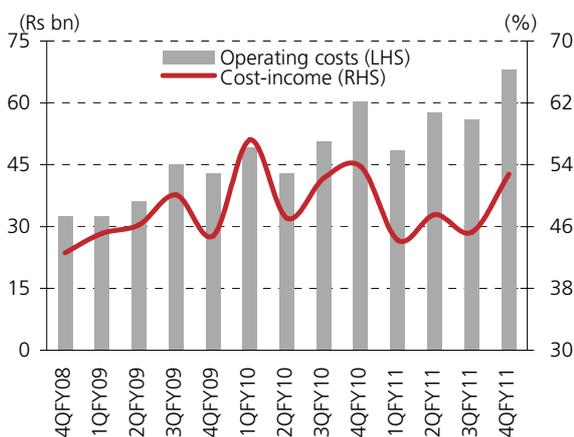
Other key financial highlights for the quarter

- ▶ Treasury income was ₹3.3 bn (down 21% yoy). Fee income growth was muted at ₹37 bn — 7% yoy growth.
- ▶ Consolidated earnings declined 61% yoy to ₹14.7 bn on the back of weak performance from the standalone business. Consolidated NII grew 18% to ₹114 bn. SBI Life reported a profit of ₹650 mn while SBI Capital Markets posted a profit of ₹640 mn.

- Overall capital adequacy ratio has come under a bit of pressure post the charge taken on pension provision through reserves. Tier-1 capital is at 7.8% with overall CAR at 12%. The bank is looking to expedite the process of capital raising (rights issue and expects full participation from GoI) though near-term capital requirements will be funded through tier-2 bonds and marginal shift in the composition of loans.

Cost-income ratio increased due to higher retirement costs

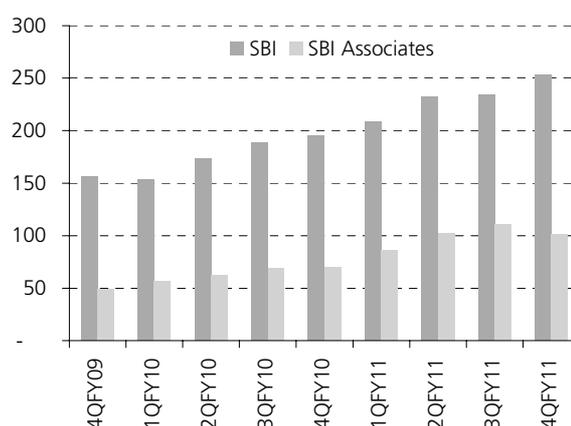
Operating costs and cost-income ratio, March fiscal year-end, 4QFY08-4QFY11



Source: Kotak Institutional Equities, Company

Higher slippages result in increase in gross NPLs

Gross NPL for SBI and associates, March fiscal year-end, 4QFY09-4QFY11 (₹ mn)



Source: Kotak Institutional Equities, Company

Consolidated net profit declines sharply due to lower profits from standalone business

Net profit of subsidiaries, March fiscal year-ends, 2QFY10-4QFY11 (₹ mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	Growth YoY (%)
Subsidiary banks								
Standalone	24,900	24,791	18,668	29,142	25,014	28,281	209	(98.9)
State Bank of Bikaner and Jaipur	901	513	1,665	1,031	1,275	1,325	1,878	12.8
State Bank of Hyderabad	2,344	2,210	3,168	2,012	2,645	2,502	4,503	42.2
State Bank of Mysore	986	1,413	1,236	1,111	934	1,320	1,638	32.5
State Bank of Tranvancore	1,225	1,650	2,172	1,498	1,636	1,758	2,383	9.7
State Bank of Patiala	1,163	1,696	1,750	993	1,561	1,731	2,244	28.2
State Bank of Indore	786	378	1,139	181	(9,500)	-	-	
Total	32,306	32,651	29,799	35,969	23,565	36,917	12,855	(56.9)
SBI Life	770	833	767	1,140	1,028	842	650	(15.2)
Others	(1,745)	66	6,599	(2,438)	(221)	306	1,187	(82.0)
Consolidated net profit	31,332	33,549	37,164	34,671	24,371	38,065	14,692	(60.5)

Source: Company, Kotak Institutional Equities

Key changes to our estimates for FY2012-13E

Old and new estimates, March fiscal year-ends, 2012-2013E (₹ mn)

	New estimates		Old estimates		% change	
	2012E	2013E	2012E	2013E	2012E	2013E
Net interest income	359,507	407,982	367,317	423,725	(2.1)	(3.7)
Loan growth	17.7	17.3	18.7	18.0		
NIM assumed (%)	2.8	2.8	3.0	2.9		
Loan loss provisions	78,238	67,718	73,792	77,611	6.0	(12.7)
Other income	184,964	214,265	173,570	201,212	6.6	6.5
Fee income	131,822	155,549	123,094	145,252	7.1	7.1
Treasury income	15,000	15,000	14,000	14,000	7.1	7.1
Operating expenses	258,903	298,224	248,975	285,074	4.0	4.6
Employee expenses	161,678	185,385	159,104	182,433	1.6	1.6
Investment depreciation	4,000	3,000	3,500	3,000	14.3	-
PBT	202,830	252,705	213,420	257,812	(5.0)	(2.0)
Tax	66,934	83,393	70,429	85,078	(5.0)	(2.0)
Net profit	135,896	169,313	142,991	172,734	(5.0)	(2.0)
PBT - treasury+loan loss provisions	270,068	308,424	276,712	324,423	(2.4)	(4.9)

Source: Kotak Institutional Equities

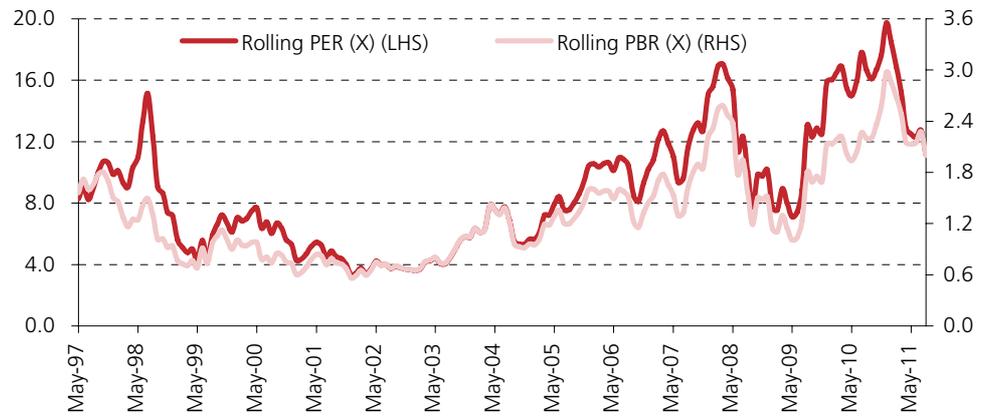
SBI forecasts and valuation

March fiscal year-ends, 2008-2013E

	Net int. income	PAT	EPS	P/E	BVPS	P/B	BVPS incl banking subs.	P/B Cons banking book	RoE
	(Rs mn)	(Rs)	(Rs)	(X)	(Rs)	(X)	(Rs)	(X)	(%)
2008	170,212	67,291	106.6	22.7	772	3.1	925	2.4	16.8
2009	208,731	91,212	143.7	16.8	913	2.6	1,088	2.0	17.1
2010	236,714	91,661	144.4	16.7	1,039	2.3	1,295	1.7	14.8
2011E	325,264	82,645	129.1	18.7	1,015	2.4	1,292	1.7	12.6
2012E	359,507	135,896	212.3	11.4	1,190	2.0	1,524	1.4	19.3
2013E	407,982	169,313	264.6	9.1	1,415	1.7	1,753	1.2	20.3

Source: Kotak Institutional Equities, Company

State Bank of India: Rolling PER and PBR (X)
 May 1997-May 2011



Source: Kotak Institutional Equities

SBI quarterly results

March fiscal year-ends, 4QFY10 - 4QFY11 (₹ mn)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	% chg	4QFY11E	Actual Vs KS
Income earned	179,658	184,521	198,081	214,128	217,214	21	232,265	(6)
Income on advances	129,673	134,221	145,808	157,166	162,566	25	169,405	(4)
Income on investments	44,523	44,722	48,044	51,569	52,179	17	53,879	(3)
Interest on balance with RBI	5,461	5,578	4,230	5,394	2,469	(55)	8,980	(73)
Interest expense	112,441	111,484	116,932	123,630	136,633	22	140,830	(3)
Nil adjt for invest. amortization	67,217	73,037	81,149	90,498	80,581	20	91,435	(12)
Other income	45,085	36,900	40,052	33,139	48,155	7	37,977	27
Fees, commission	34,858	24,096	29,451	24,774	37,312	7		
Invnt. income	4,256	1,734	1,973	2,202	3,347	(21)	2,590	29
Forex income	1,895	5,025	3,087	4,083	2,446	29		
Dividend	471	3,772	2,877	-	1,628	-		
Other income excl. treasury	40,829	35,166	38,079	30,937	44,808	10	35,386	27
Total income	112,302	109,937	121,201	123,637	128,735	15	129,412	(1)
Operating expenses	60,361	48,593	57,631	55,992	67,938	13	64,681	5
Staff expenses	28,266	14,507	28,545	28,261	33,183	17	32,213	3
Other retirement contributions	7,652	16,233	8,213	6,856	9,005	18	10,284	(12)
Other operating expenses	24,443	17,854	20,873	20,876	25,750	5	22,184	16
Pre-provision operating profit	51,941	61,344	63,570	67,645	60,797	17	64,730	(6)
Provisions and extraordinary	23,494	15,514	26,215	20,515	41,570	77	27,659	50
Loan loss provisions	21,868	17,334	21,625	16,323	32,639	49	18,916	73
Standard assets	725	1,059	146	2,250	6,310	771		
Investment depreciation	356	(2,983)	4,318	2,088	3,040	755		
Other provisions	546	104	126	(146)	(419)	(177)	916	(146)
PBT	28,447	45,830	37,355	47,130	19,227	(32)	37,072	(48)
Less tax	9,779	16,688	12,342	18,849	19,019	94	9,033	111
Profit after tax	18,668	29,142	25,014	28,281	209	(99)	28,039	(99)
Fees to PBT (%)	122.5	52.6	78.8	52.6	194.1			
Treasury income/PBT (%)	13.7	10.3	(6.3)	0.2	1.6			
Cost income ratio (%)	53.7	44.2	47.5	45.3	52.8			
Tax rate (%)	34.4	36.4	33.0	40.0	98.9			
Key balance sheet data (Rs bn)								
Advances gross	6,415	6,638	6,932	7,400	7,718	20		
Advances net	6,319	6,532	6,807	7,266	7,718	22		
Deposits	8,041	8,153	8,553	8,790	9,339	16		
Low cost deposits (%)	46.7	47.5	47.8	48.2	48.7			
Investments	2,858	2,800	2,855	3,148	2,956	3		
Yield management ratios (%)								
Cost of deposits	5.8	5.3	5.3	5.2	5.3			
Yield on advances	9.7	9.3	9.5	9.6	9.6			
Yield on resources	6.5	6.8	6.9	7.0	7.0			
Net interest margin (YTD)	2.7	3.2	3.3	3.4	3.3			
Net interest margin (Reported, Qtly)	3.0	3.2	3.4	3.6	3.1			
Asset quality details								
Gross NPLs (Rs bn)	195	208	232	234	253	30		
Gross NPLs (%)	3.1	3.1	3.4	3.2	3.3			
Net NPLs (Rs bn)	109	111	116	117	123	14		
Net NPLs (%)	1.7	1.7	1.7	1.6	1.6			
Slippages	25.0	40.8	44.1	39.2	56.5			
Provision Coverage (%)	44.4	46.8	50.0	50.1	51.2			
Provision coverage (inc tech w/o, %)	59.2	60.7	62.8	64.1	65.0			
Restructured loans	268	269	307	328	343			
% of loans	4.2	4.1	4.5	4.5	4.5			
Slippage-restructured (%)	9.6	10.6	14.5	15.7	15.0			
Capital adequacy details (%)								
CAR	13.4	13.5	13.2	13.2	11.98			
Tier I	9.5	9.8	9.6	9.6	7.77			

Source: Kotak Institutional Equities

SBI SOTP valuation based on FY2013E

	SBI holding (%)	NW FY2013E (Rs mn)	Multiple assumed (X)	Value FY2013 (Rs mn)	Value per share FY2013 (Rs)	Methodology adopted
SBI standalone					2,441	Residual income model
Non banking subsidiaries and investments						
SBI Life				85,195	133	Based on appraisal value
SBI MF	63%			12,807	20	4% of AUM of Rs60 tn (10% CAGR - AUM)
NSE	8%			14,976	24	NSE value at Rs130 bn (last transaction)
UTI MF	17%			5,529	9	4% of Rs810 bn AUM (10% CAGR - AUM)
SBI Caps	86%			18,731	30	12X 2013 PAT
SBI DFHI	57%			6,892	11	1X FY2013 networth
Value of all non-bank subsidiaries					227	
SBI Associate banks						
State Bank of Bikaner and Jaipur	75%	33,558	1.4	46,982		BV multiple based on RoE
State Bank of Hyderabad	100%	68,094	1.4	95,332		BV multiple based on RoE
State Bank of Mysore	92%	42,771	1.4	59,880		BV multiple based on RoE
State Bank of Patiala	100%	49,199	1.4	68,878		BV multiple based on RoE
State Bank of Travancore	75%	32,823	1.4	45,952		BV multiple based on RoE
Banking subsidiaries and associates		226,445		317,023		
post discount of 10%		203,801		285,321	449	
Value of all subsidiaries					676	
Total value of the bank					3,117	

Source: Kotak Institutional Equities

SBI—growth rates and key ratios
 March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	23.5	30.2	16.5	19.8	17.7	17.3
Total Asset	27.4	33.7	9.2	16.2	17.4	13.7
Deposits	23.4	38.1	8.4	16.1	21.9	16.3
Current	19.7	12.9	10.7	22.1	21.9	17.0
Savings	19.4	28.5	29.9	22.1	18.2	14.5
Fixed	27.0	51.9	(2.1)	10.8	24.3	17.2
Net interest income	13.0	22.6	13.4	37.4	10.5	13.5
Loan loss provisions	27.2	5.5	92.9	86.9	(19.9)	(13.4)
Total other income	28.6	46.1	17.9	5.7	16.9	15.8
Net fee income	23.1	28.8	26.6	19.9	14.0	18.0
Net capital gains	(1,397.4)	171.2	(17.5)	(56.3)	62—	—
Net exchange gains	109.0	70.2	34.6	(7.8)	10.0	18.0
Operating expenses	6.6	24.1	29.8	13.3	12.5	15.2
Employee expenses	(1.8)	25.2	30.9	13.5	11.7	14.7
Key ratios (%)						
Yield on average earning assets	8.2	8.1	7.4	7.5	8.1	8.3
Yield on average loans	9.3	9.7	8.6	8.6	9.2	9.4
Yield on average investments	7.4	7.0	6.6	7.1	7.3	7.2
Average cost of funds	5.6	5.8	5.3	4.9	5.7	6.0
Interest on deposits	5.6	5.9	5.6	5.0	5.9	6.2
Difference	2.6	2.3	2.1	2.6	2.4	2.4
Net interest income/earning assets	2.8	2.6	2.5	3.0	2.8	2.8
New provisions/average net loans	0.7	0.6	0.9	1.4	1.0	0.7
Interest income/total income	66.2	62.2	61.3	67.3	66.0	65.6
Fee income to total income	23.0	22.7	25.0	23.9	24.2	25.0
Operating expenses/total income	49.1	46.6	52.6	47.6	47.6	47.9
Tax rate	35.5	35.7	34.2	44.7	33.0	33.0
Dividend payout ratio	20.2	20.2	20.8	23.2	15.1	12.9
Share of deposits						
Current	18.3	14.9	15.2	16.0	16.0	16.1
Fixed	53.0	58.4	52.7	50.3	51.3	51.7
Savings	28.7	26.7	32.0	33.7	32.7	32.2
Loans-to-deposit ratio	77.6	73.1	78.6	81.0	78.2	78.9
Equity/assets (EoY)	6.8	6.0	6.3	5.3	5.3	5.5
Asset quality trends (%)						
Gross NPL (%)	3.0	2.8	3.0	3.3	2.7	2.3
Net NPL (%)	1.8	1.8	1.4	1.6	1.2	0.9
Slippages (%)	2.3	2.7	2.2	2.9	2.0	1.6
Provision coverage (% ex write-off)	42.2	39.2	55.6	51.2	57.4	63.2
Dupont analysis (%)						
Net interest income	2.6	2.5	2.3	2.9	2.7	2.7
Loan loss provisions	0.4	0.3	0.5	0.9	0.6	0.4
Net other income	1.3	1.5	1.5	1.4	1.4	1.4
Operating expenses	2.0	1.9	2.0	2.0	2.0	1.9
Invt. depreciation	(0.0)	0.1	(0.1)	—	—	—
(1- tax rate)	64.5	64.3	65.8	55.3	67.0	67.0
ROA	1.0	1.1	0.9	0.7	1.0	1.1
Average assets/average equity	16.0	15.8	16.3	17.4	18.8	18.4
ROE	16.8	17.1	14.8	12.6	19.3	20.3

Source: Kotak Institutional Equities

SBI –P&L and balance sheet

March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	489,503	637,884	709,939	813,944	1,025,107	1,227,557
Loans	352,281	464,047	506,326	599,760	758,849	905,819
Investments	119,442	155,741	177,363	196,514	244,747	294,618
Total interest expense	319,291	429,153	473,225	488,680	665,600	819,575
Net interest income	170,212	208,731	236,714	325,264	359,507	407,982
Loan loss provisions	25,679	27,098	52,279	97,686	78,238	67,718
Net interest income (after prov.)	144,533	181,634	184,435	227,578	281,269	340,264
Other income	86,839	126,908	149,682	158,246	184,964	214,265
Net fee income	59,143	76,172	96,409	115,633	131,822	155,549
Net capital gains	9,463	25,667	21,168	9,257	15,000	15,000
Net exchange gains	6,927	11,792	15,871	14,641	16,105	19,003
Operating expenses	126,086	156,487	203,187	230,154	258,903	298,224
Employee expenses	77,859	97,473	127,546	144,802	161,678	185,385
Depreciation on investments	(887)	7,072	(9,880)	6,463—	4,000—	3,000—
Other Provisions	1,894	3,176	1,549	(335)	500	600
Pretax income	104,389	141,806	139,261	149,542	202,830	252,705
Tax provisions	37,098	50,594	47,600	66,897	66,934	83,393
Net Profit	67,291	91,212	91,661	82,645	135,896	169,313
% growth	48.2	35.5	0.5	(9.8)	64.4	24.6
PBT - Treasury + Provisions	121,612	153,485	162,041	244,099	270,568	309,024
% growth	20.73	26.21	5.57	50.64	10.84	14.21
Balance sheet						
Cash and bank balance	674,663	1,044,038	961,816	1,228,741	922,272	1,014,918
Cash	32,203	42,955	68,410	68,410	68,410	68,410
Balance with RBI	483,143	512,507	544,476	875,545	569,076	661,721
Balance with banks	37,135	116,152	121,511	57,367	57,367	57,367
Net value of investments	1,895,013	2,759,540	2,857,901	2,956,006	4,036,778	4,380,868
Govt. and other securities	1,407,340	2,262,175	2,267,060	2,376,175	3,456,946	3,801,037
Shares	45,025	45,904	71,994	71,994	71,994	71,994
Debentures and bonds	176,288	148,890	161,274	161,274	161,274	161,274
Net loans and advances	4,167,682	5,425,032	6,319,142	7,567,195	8,903,884	10,444,256
Fixed assets	33,735	38,378	44,129	47,642	60,862	51,624
Other assets	444,170	377,333	351,128	437,779	437,779	437,779
Total assets	7,215,263	9,644,321	10,534,115	12,237,362	14,361,574	16,329,444
Deposits	5,374,060	7,420,731	8,041,162	9,339,328	11,381,518	13,234,429
Current	981,335	1,107,536	1,225,794	1,497,300	1,824,708	2,135,005
Fixed	2,850,411	4,330,953	4,240,765	4,697,408	5,838,385	6,841,811
Savings	1,542,293	1,982,243	2,574,603	3,144,620	3,718,425	4,257,613
Borrowings and bills payable	921,767	1,029,880	1,241,099	1,406,672	1,406,672	1,406,672
Other liabilities	429,110	614,233	592,361	841,501	811,537	782,640
Total liabilities	6,724,936	9,064,844	9,874,622	11,587,502	13,599,727	15,423,741
Total shareholders' equity	490,327	579,477	659,492	649,910	761,847	905,703

Source: Kotak Institutional Equities

MAY 17, 2011

RESULT

Coverage view: **Neutral**

Price (Rs): **155**

Target price (Rs): **170**

BSE-30: **18,137**

In-line 4QFY11 but disappointment elsewhere. HTML reported robust consolidated 4QFY11 EBITDA at Rs844 mn (+5% yoy, -3% qoq), in line with expectations. Strong 20% yoy advertising growth and 25% yoy revenue growth (Fever FM and HT-Burda) were negated by a 43% yoy increase in newsprint costs (unfavorable base given bottom of newsprint cycle in 4QFY10). Consolidated tax rate remained low at 24%, resulting in 10% yoy growth in consolidated PAT. We retain our ADD rating with a 12-month SOTP-based TP of Rs170 given fair 9X FY2012E EV/EBITDA valuations but FY2011 dividend of Rs0.36/share disappointed (Rs19/share net cash on books).

Company data and valuation summary

HT Media

Stock data		Forecasts/Valuations			
		2011	2012E	2013E	
52-week range (Rs) (high,low)	186-125	EPS (Rs)	7.7	8.6	11.3
Market Cap. (Rs bn)	36.4	EPS growth (%)	26.3	11.5	31.2
Shareholding pattern (%)		P/E (X)	20.1	18.0	13.7
Promoters	68.8	Sales (Rs bn)	17.6	21.5	25.8
FIs	12.3	Net profits (Rs bn)	1.8	2.0	2.7
MFs	13.3	EBITDA (Rs bn)	3.1	3.6	4.6
Price performance (%)		EV/EBITDA (X)	9.6	8.2	6.4
Absolute	1M (0.4) 3M 4.5 12M 1.1	ROE (%)	15.0	13.9	17.1
Rel. to BSE-30	6.5 6.6 (6.1)	Div. Yield (%)	1.3	2.6	3.9

In-line 4QFY11 driven by robust advertising growth but dividend payout disappointing

- ▶ HT Media reported standalone 4QFY11 EBITDA at Rs806 mn (+15% yoy, -1% qoq), marginally ahead of expectations, driven by robust advertising revenue growth in the English print business (negated by sharp yoy increase in RM costs as 4QFY10 was the bottom of newsprint cycle) and Fever FM radio (CWC 2011).
- ▶ However, the key (and surprising) disappointment in 4QFY11 went beyond the financials. HTML announced 4QFY11 dividend payout of Rs0.36/share (~5% dividend payout on FY2011 EPS of Rs7.7/share) despite Rs19/share of net cash on the books. Effectively, HTML has just passed through the dividend announced by subsidiary HMVL.
 - We highlight that the HT Media's English print business has modest capex requirement (likely for expansion of HT Mint) given revamped printing infrastructure in Delhi and Mumbai previously. HT may also require investment for expansion of its FM radio business in Phase-III licensing but legacy businesses will also generate cash in FY2012E.

Fair valuations but sensitivity to interest rate cycle and loss-making businesses are risks

We retain our ADD rating on HT Media with SOTP-valuation of Rs170 (unchanged) given fair valuations at 9X FY2012E EV/EBITDA (see Exhibits 2-3). We have fine-tuned our FY2012E-13E EPS estimates to Rs8.6 (Rs8.8 previously) and Rs11.3 (Rs11.7) due to marginal reduction in advertising revenue growth given rising interest rate cycle and the impact on print advertisers (Real Estate for example). Robust traction in HT Mumbai and HT Mint may eventually give HTML a significant strategic toehold in BFSI, Auto and Luxury retail advertising segments. Finally, competitive intensity in the Mumbai market remains high with DNA's continued circulation investment, resulting in (further) extended breakeven period for HT Mumbai, in our view. The unfavorable advertising revenue base in FY2011 may also impact reported financial performance though we remain sanguine on RM cost inflation (exists but contained). The lack of triggers and low dividend payout precludes a meaningful rerating of the stock.

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4QFY11 standalone financials—English print and Fever FM

Interim standalone results of HT Media (HTML), March fiscal year-ends (Rs mn)

	4QFY11	4QFY10	3QFY11	chg (%)		FY2011	FY2010	(% chg)
				4QFY10	3QFY11			
Total revenues	3,269	2,643	3,248	24	1	12,091	12,621	(4)
Advertisement revenues	2,696	2,231	2,754	21	(2)	10,153	10,041	
Circulation revenues	162	142	165	14	(2)	602	1,240	
Other operating revenues	411	270	329	52	25	1,336	1,340	(0)
Total expenditure	(2,462)	(1,943)	(2,433)	27	1	(9,317)	(9,953)	(6)
Raw material costs	(956)	(671)	(965)	42	(1)	(3,554)	(4,098)	(13)
Employee expenses	(527)	(448)	(521)	18	1	(2,095)	(2,082)	1
SG&A and other expenses	(980)	(824)	(948)	19	3	(3,668)	(3,773)	(3)
EBITDA	806	700	815	15	(1)	2,774	2,668	4
OPM (%)	24.7	26.5	25.1			22.9	21.1	
Depreciation	(141)	(139)	(142)	2	(0)	(563)	(638)	(12)
Other income	118	109	75	8	58	467	371	26
Interest expense	(64)	(45)	(40)	41	58	(187)	(257)	(27)
Pretax profits	720	625	708	15	2	2,491	2,144	16
Extraordinaries	—	—	—	—	—	—	(344)	
Tax provision	(575)	(199)	(154)	189	273	(1,023)	(552)	85
Minority interest	—	—	—	—	—	—	—	
Reported net income	145	426	554	(66)	(74)	1,468	1,248	18
Adjusted net income	145	426	554	(66)	(74)	1,468	1,592	(8)
Tax rate (%)	79.9		21.7			41.1	25.7	
Key data								
English print segment								
Total revenues	3,030	2,563	3,087	18	(2)	11,470	12,394	(7)
Operating profit	672	646	688	4	(2)	2,500	2,358	6
Radio segment								
Total revenues	255	130	180	96	42	699	417	68
Operating profit	56	5	30	1,151	86	81	(59)	(237)

Source: Company data, Kotak Institutional Equities

- ▶ HTML standalone consists of its English print and Fever FM radio business. HTML reported robust 4QFY11 financials in the English print business (18% revenue growth, 4% profit growth) despite (1) continued expansion (HT Mumbai, HT Mint), and (2) unfavorable base (sharp rise in RM costs given bottom of newsprint cycle in 4QFY10).
- ▶ However, the key problem area in HT English print bouquet is HT Mumbai, in our view. HT has done well to capture the runners-up position in Mumbai but (1) neither can it challenge TOI for English advertising in Mumbai currently (given large readership gap) nor (2) has DNA lost much to HT in terms of advertising revenues (our expectation previously). DNA continues to harbor hopes of a comeback in the Mumbai market with very aggressive promotion (two-year subscription for Rs199).
- ▶ Fever FM's 4QFY11 revenue and EBITDA performance was exceptional (better than 3QFY11 despite it being the festival quarter), largely on account of the Indian team's performance in the Cricket World Cup 2011, in our view. However, by the same measure, the performance is unsustainable though we expect continued improvement in financials of FM radio businesses given high inventory utilization levels.
- ▶ HTML was forced to reverse some tax benefits/credits accounted in 3QFY11 financials from the announced merger of its internet business (Shine.com) with the standalone parent company, pending clearance from the Delhi High Court.
- ▶ More important, we note the modest valuation benefit of Fever FM radio business in our SOTP, given limited life of the license (10 years). In our view, most Phase-II FM radio licenses have been value-destructive (high bidding) and the positive valuation reflects the sunk nature of the upfront one-time license fee.

SOTP valuation of HT Media, March fiscal year-end, 2012E

Business	Financials (Rs bn)		Multiple (X)		Valuation		Comments/Assumptions
	Sales	EBITDA	Sales	EBITDA	(Rs bn)	(Rs/share)	
HT Delhi-NCR	8.3	2.7	2.2	6.7	18.3	78	Based on DCF valuation with zero terminal growth
Hindustan	6.0	1.1	2.1	12.3	8.4	36	Based on 16.5% holding discount to DCF valuation
HT Others	1.8	0.3	1.6	9.7	2.8	12	Based on DCF valuation
HT Mint	0.9	0.0	2.3	52.9	2.0	8	Based on DCF valuation
Fever FM	0.8	0.2	2.4	10.3	2.0	8	Based on DCF valuation limited up to FY2018E
HT-Burda JV	1.8	(0.0)	0.5	(23.4)	0.4	2	Based on discounted 8.0X FY2013E EV/EBITDA
HT Mumbai	2.2		1.0		2.0	8	Based on discounted 1.0X FY2013E EV/Sales
Internet	0.2		—		—	—	
Enterprise value					35.9	153	
Net cash/(debt)					4.4	19	Based on end-FY2011 standalone financials
Equity value					40.3	171	

Source: Kotak Institutional Equities estimates

Valuation of Indian print media companies, March fiscal year-ends, 2011E-13E

	EV	EBITDA (Rs bn)				EV/EBITDA (X)			
	(Rs bn)	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
JAGP	33	2.8	3.4	3.7	4.4	11.7	9.7	8.9	7.5
JAGP (adjusted)	32	2.8	3.4	3.7	4.4	11.2	9.3	8.5	7.2
DBCL	43	3.3	4.0	4.4	5.2	13.1	10.9	9.9	8.4
DBCL (adjusted)	43	3.3	4.3	4.9	5.8	13.1	10.1	8.9	7.5
HMVL	9	0.8	0.9	1.1	1.5	11.0	10.3	8.7	6.4
HTML	31	2.6	3.1	3.6	4.6	12.3	10.0	8.6	6.8

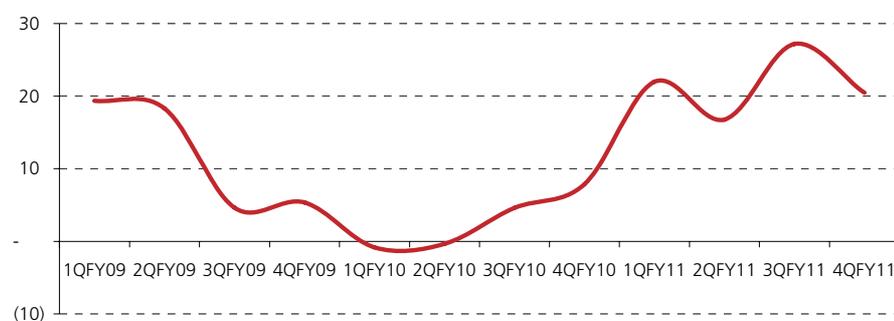
	Price	EPS (Rs/share)				P/E (X)			
	(Rs)	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
JAGP	117	5.8	6.8	7.7	9.0	20.0	17.1	15.1	13.0
JAGP (adjusted)	117	5.9	7.1	8.1	9.4	19.8	16.6	14.5	12.4
DBCL	239	10.6	13.0	14.5	17.4	22.5	18.4	16.4	13.8
DBCL (adjusted)	239	10.6	14.0	16.3	19.4	22.5	17.1	14.7	12.3
HMVL	150	7.9	8.2	9.0	12.0	19.0	18.2	16.7	12.5
HTML	155	6.0	7.7	8.6	11.3	25.8	20.1	18.0	13.7

Notes:

- (a) Adjusted for higher dividend payout versus peers DBCL and HTML.
(b) Adjusted for near-term startup losses from BJH expansion but does not include Maharashtra.

Source: Company data, Kotak Institutional Equities estimates

Trends in advertising revenue growth for HT Media (%)



Notes:

- (a) Growth in advertising revenues in standalone financials till 2QFY10, and consolidated financials thereafter.

Source: Company data, Kotak Institutional Equities

4QFY11 consolidated financials—Hindi print, HT-Burda and Internet

Interim consolidated results of HT Media (HTML), March fiscal year-ends (Rs mn)

	4QFY11	4QFY11E	4QFY10	3QFY11	(% chg)			FY2011	FY2010	(% chg)
					4QFY11E	4QFY10	3QFY11			
Total revenues	4,672	4,675	3,743	4,635	(0)	25	1	17,646	14,129	25
Advertisement revenues	3,635	3,600	3,017	3,699	1	20	(2)	13,914	11,440	22
Circulation revenues	469	500	429	471	(6)	9	(0)	1,826	1,833	(0)
Other operating revenues	568	575	297	465	(1)	91	22	1,906	856	123
Total expenditure	(3,828)	(3,850)	(2,937)	(3,767)	(1)	30	2	(14,503)	(11,631)	25
Raw material costs	(1,649)	(1,750)	(1,155)	(1,648)	(6)	43	0	(6,249)	(4,760)	31
Employee expenses	(766)	(800)	(631)	(760)	(4)	21	1	(3,009)	(2,520)	19
SG&A and other expenses	(1,413)	(1,300)	(1,152)	(1,360)	9	23	4	(5,245)	(4,350)	21
EBITDA	844	825	806	868	2	5	(3)	3,143	2,499	26
OPM (%)	18.1	17.6	21.5	18.7				17.8	17.7	
Depreciation	(220)	(225)	(181)	(217)	(2)	22	1	(842)	(707)	19
Other income	149	125	153	79	19	(3)	88	506	409	24
Interest expense	(71)	(25)	(71)	(46)	184	0	53	(236)	(295)	(20)
Pretax profits	702	700	707	684	0	(1)	3	2,571	1,906	35
Extraordinaries	—	—	—	—				—	(14)	
Tax provision	(166)	(200)	(222)	(184)	(17)	(25)	(9)	(713)	(537)	33
Minority interest	(6)	(25)	(6)	(22)				(49)	11	
Reported net income	529	475	480	478	11	10	11	1,809	1,366	32
Adjusted net income	529	475	480	478	11	10	11	1,809	1,380	31
Tax rate (%)	23.7	28.6	31.4	26.8				27.7	28.2	
Key data										
Print segment										
Total revenues	4,395		3,643	4,446		21	(1)	16,900	13,851	22
Operating profit	747		874	777		(15)	(4)	2,999	2,600	15
Radio segment										
Total revenues	258		143	182		81	42	704	431	63
Operating profit	56		4	30		1,411	87	79	(61)	(229)
Internet segment										
Total revenues	37		29	21		28	78	104	56	86
Operating profit	(108)		(84)	(107)		28	1	(397)	(359)	10

Source: Company data, Kotak Institutional Equities estimates

- ▶ HTML consolidated financials incrementally consist of its Hindi print, HT-Burda and digital/internet businesses. We have discussed the Hindi print financials (part of listed subsidiary HMVL) in our note "Operational performance: Robust! Financial performance: Not yet! Part 1" dated May 17, 2011. HMVL's 4QFY11 EBITDA at Rs200 mn (-6% yoy, +8% yoy) was in line with our expectations.
- ▶ HTML's consolidated print profits have declined 15% yoy despite 4% yoy growth in standalone print profits (English print) and modest 6% yoy decline in Hindustan profits (Hindi print). HT-Burda JV continues to disappoint with EBITDA losses in FY2011, which we expect to continue into FY2012E. The asset-heavy outsourced printing business will need to attain some scale to achieve EBITDA breakeven in FY2013E.
- ▶ Unsurprisingly, the internet/digital business continues to report EBITDA losses as robust operational performance in Shine.com has not yet translated into financial performance. The worry is increase in losses in 4QFY11, likely due to launch of new initiatives/websites to enhance HT's presence in the digital domain. We are fine with HT's basic philosophy of long-term investment in the internet/digital domain; however, entry into segments already dominated by strong incumbents (Naukri.com) has backfired due to the network effect. HT may need to explore virgin territories (education) or rely on M&A (past experience of Desimartini.com is not great).

- ▶ HTML reported low 4QFY11 consolidated tax rate at 24%, resulting in 10% yoy growth in consolidated PAT ahead of 5% yoy growth in EBITDA. The puzzle of low consolidated tax rates (28% in 2QFY11 and 27% in 3QFY11) continues to elude us; operating losses in subsidiaries are already accounted for in the consolidated EBITDA. The answer may lie in deferred tax assets of Rs435 mn accounted by Firefly (internet/digital subsidiary) in 4QFY11 (as highlighted in the notes of accounts, part of consolidated financials, much ahead of Rs108 mn of reported operating losses); we will seek clarifications on the same in HTML/HMVL conference call to discuss the results today.

Financial summary of HT Media, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model							
Net sales	10,397	12,033	13,466	14,129	17,644	21,535	25,841
EBITDA	1,680	1,699	879	2,554	3,137	3,634	4,616
Other income	367	439	330	409	509	645	684
Interest	(143)	(178)	(323)	(295)	(236)	(191)	(191)
Depreciation	(436)	(570)	(688)	(707)	(840)	(875)	(745)
Pretax profits	1,468	1,390	198	1,961	2,570	3,213	4,363
Extraordinary items	2	—	(189)	(76)	—	—	—
Tax	(573)	(520)	(40)	(562)	(799)	(1,206)	(1,570)
Deferred taxation	27	143	(85)	25	91	120	91
Net income	925	1,013	(116)	1,348	1,861	2,127	2,884
Minority interest	(46)	—	(125)	(11)	49	107	234
Adjusted net income	969	1,013	79	1,414	1,812	2,020	2,650
Earnings per share (Rs)	4.1	4.3	0.3	6.0	7.7	8.6	11.3
Balance sheet							
Total equity	7,642	8,529	8,485	9,711	13,676	14,601	15,608
Minority interest	—	1	(69)	218	267	375	609
Deferred taxation liability	273	122	207	178	87	(33)	(124)
Total borrowings	1,658	2,231	3,706	3,125	2,125	2,125	2,125
Current liabilities	2,113	2,804	5,399	6,655	7,306	8,170	8,921
Total liabilities and equity	11,685	13,685	17,728	19,888	23,461	25,237	27,138
Cash	1,104	774	705	1,087	3,719	3,874	4,391
Other current assets	2,863	4,425	6,270	5,618	6,599	7,844	9,102
Total fixed assets	4,109	4,752	6,718	7,573	7,533	7,908	8,035
Intangible assets	1,098	1,078	998	834	834	834	834
Investments	2,510	2,656	3,035	4,755	4,755	4,755	4,755
Total assets	11,685	13,685	17,728	19,888	23,461	25,237	27,138
Free cash flow							
Operating cash flow, excl. working capital	1,337	1,242	586	2,308	2,337	2,428	3,046
Working capital changes	(226)	(131)	1,313	1,695	(331)	(381)	(508)
Capital expenditure	(867)	(1,196)	(2,597)	(1,575)	(800)	(1,250)	(872)
Investments	(319)	(325)	(1,126)	(1,778)	—	—	—
Other income	197	298	206	146	509	645	684
Free cash flow	121	(112)	(1,618)	795	1,716	1,442	2,350
Ratios (%)							
Debt/equity	20.9	25.8	42.6	31.6	15.4	14.6	13.7
Net debt/equity	7.0	16.8	34.5	20.6	(11.6)	(12.0)	(14.6)
ROAE (%)	12.8	12.2	0.9	15.2	15.3	14.3	17.6
ROACE (%)	10.6	9.6	3.6	12.7	13.4	13.1	17.0

Source: Company data, Kotak Institutional Equities estimates

MAY 18, 2011

UPDATE

BSE-30: 18,137

Booking profits and losses. We are closing two trades and initiating a new alpha trade in the metals sector. The Long HDFC Bank, Short HDFC trade has returned 8.2% since its inception; we are also booking a loss in our Long Maruti, Short Hero Honda call which is currently 13.6% below initiation levels. We recommend going Long Sterlite, Short Hindalco based on the following—(1) STLT's cheaper valuations versus Hindalco's, (2) likely correction in aluminum prices, (3) stronger volume growth in STLT that provides more visibility to its short-term earnings, and (4) recent Street activity shows a large number of EPS and target price upgrades for STLT as compared to Hindalco.

Closing Long Maruti, Short Hero Honda trade booking a loss of 13.6%

This trade has lost 13.6% since April 15, 2011. While Maruti corrected 5.3%, Hero Honda gained 8.3% during the same period. We expect this trade to reverse in the future but the large loss in the past few days forces us to close the trade. HH is trading at 16.6X FY2012E EPS compared to MSIL's 12.8X.

Booking profits on Long HDFC Bank, Short HDFC with 8.2% gross return

HDFC Bank gained 2.1% since inception of the trade on March 9, 2011 and HDFC corrected 6.1% during the same period giving us a gross return of 8.2%.

Long Crompton, Short Siemens: Trade open currently, 5.8% out of the money

Siemens posted stronger-than-expected 2QFY11 (September-ending) results but CRG reported weaker-than-expected 4QFY11 results (revenues were 3% below estimates). CRG has corrected 7.1% since initiation of the trade on March 9, 2011 but Siemens has lost only 1.3%. In our view, CRG's consumer business (around 33% of standalone revenues) and large order inflows in overseas business (₹14.5 bn in 4QFY11, close to peak levels of ₹15.2 bn in 1QFY09) provide better revenue visibility compared to SIEM's excessive reliance on the power segment (about 50% of overall revenues), which makes us wary about its future revenues.

Long Ultratech, Short ACC: Trade open currently, up 2.4% since initiation

Ultratech has gained 1.9% and ACC has corrected 0.5% since March 9, 2011. We keep the trade open as ACC is still trading at a significant premium (~30% on FY2012E EV/EBITDA basis) to Ultratech. We expect the premium to gradually wind down as the market takes cognizance of likely lower purchases by Holcim (ACC's major shareholder) in the open market in the next few months.

Initiating Long Sterlite Industries, Short Hindalco

We recommend going Long Sterlite, Short Hindalco based on the following—(1) STLT's cheaper valuations versus Hindalco's, (2) likely correction in aluminum prices, (3) stronger volume growth in STLT that provides more visibility to its short-term earnings, and (4) recent Street activity shows a large number of EPS and target price upgrades for STLT as compared to Hindalco.

QUICK NUMBERS

- Performance of recent Alpha Bet trades...pg02
- Recommend Long Sterlite, Short Hindalco...pg03

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KIE Alpha Bet trades

Statistics of trades, current price, initiation price, expected return

	Stock	Current price (Rs)	Initiation price (Rs)	Return (%)
Open trades				
Trade duration	May 17, 2011 -			
Buy	Sterlite Industries	168	168	—
Sell	Hindalco	193	193	—
Current return (%)				—
Expected return (%)				10.0
Trade duration	March 9, 2011 -			
Buy	Crompton Greaves	242	260	(7.1)
Sell	Siemens	846	857	(1.3)
Current return (%)				(5.8)
Expected return (%)				10.0
Trade duration	March 9, 2011 -			
Buy	Ultratech Cement	1,039	1,020	1.9
Sell	ACC	999	1,004	(0.5)
Current return (%)				2.4
Expected return (%)				8.0
Closed trades				
Trade duration	March 9, 2011 - March 30, 2011			
Buy	Punjab National Bank	1,218	1,076	13.2
Sell	Bank of India	479	470	1.9
Total trade return (%)				11.3
Expected return (%)				10.0
Trade duration	March 9, 2011 - May 4, 2011			
Buy	Oil & Natural Gas Corpor	310	271	14.1
Sell	GAIL (India)	447	441	1.2
Current return (%)				12.9
Expected return (%)				10.0
Trade duration	March 9, 2011 - May 17, 2011			
Buy	HDFC Bank	2,252	2,206	2.1
Sell	HDFC	632	673	(6.1)
Current return (%)				8.2
Expected return (%)				8.0
Trade duration	April 15, 2011 - May 17, 2011			
Buy	Maruti Suzuki	1,210	1,278	(5.3)
Sell	Hero Honda	1,803	1,665	8.3
Current return (%)				(13.6)
Expected return (%)				10.0

Source: Kotak Institutional Equities

TRADE #7: LONG STERLITE, SHORT HINDALCO

We recommend going Long Sterlite, Short Hindalco based on the following—(1) STLT's cheaper valuations versus Hindalco's, (2) likely correction in aluminum prices, (3) stronger volume growth in STLT that provides more visibility to its short-term earnings, and (4) recent Street activity shows a large number of EPS and target price upgrades for STLT as compared to Hindalco.

Prefer STLT to Hindalco

We highlight the following key points behind our Long Sterlite, Short Hindalco trade.

- ▶ **STLT's cheaper valuation versus Hindalco's.** STLT is trading at 7.9X FY2012E EPS and 4.6X FY2012E EBITDA compared to Hindalco's 10.9X FY2012E EPS and 7.3X FY2012E EBITDA. Exhibit 1 shows the valuation gap between STLT and Hindalco; we do not adjust for C-WIP and would clarify that a portion of Hindalco's EV/market capitalization would also reflect value of its ongoing expansion and greenfield projects.

Exhibit 1: Sterlite relatively cheaper than Hindalco
Valuations of Sterlite and Hindalco based on FY2012E

	Rating	CMP (Rs)	TP upside (%)	Price change (MoM in %)	Valuation (X)		
					P/E	P/B	EV/EBITDA
Sterlite Industries India	BUY	168	31	(2.0)	7.9	1.2	4.6
Hindalco Industries	ADD	193	29	(8.0)	10.9	1.4	7.3

Source: Kotak Institutional Equities estimates

Exhibits 2 and 3 give our detailed SOTP valuations of the two stocks. The potential upside to our 12-month target is similar for the two stocks; however, we derive comfort from (1) better product diversification of STLT compared to Hindalco, which derives the bulk of its EBITDA from aluminum, and (2) better visibility on STLT's near-term volumes. Although Hindalco's earnings and valuation may find support from Novelis' conversion business, continued delay in execution of ongoing greenfield projects may lead to volume disappointments in FY2013E. On the other hand, we ascribe negative value (₹25/share) to STLT's investments in and loans to Vedanta Aluminum, which may be a very conservative assumption.

Exhibit 2: We value Hindalco at ₹250/share
Hindalco Industries, SOTP valuation, FY2013E basis (₹ mn)

		Multiple (X)	Value (Rs mn) (Rs/share)	
Hindalco FY2013E EBITDA	36,228	6.0	217,369	114
Novelis FY2013E EBITDA	49,942	6.5	324,624	170
ABML FY2013E EBITDA (proportionate stake)	4,810	5.0	24,050	13
Total Enterprise Value			566,043	296
Add: Value of listed investments (20% discount to market price)			22,607	12
Less: Net debt (adjusted for CWIP)	(110,604)		(110,604)	(58)
Arrived market capitalization			478,045	250
Target price (Rs)				250

Source: Kotak Institutional Equities estimates

Exhibit 3: SOTP-based target price of Sterlite Industries is ₹220/share
SOTP-based target price of Sterlite, March fiscal year-ends, 2013E basis (₹ mn)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Net debt (Rs bn)	Implied Mcap (Rs bn)	Sterlite's stake (%)	Attributable Mcap (Rs bn)	Holding Co discount (%)	Contribution (Rs/ share)
BALCO	17	6.3	107	61.5	45.4	51.0	23	15.0	6
Copper business									
Copper smelting business	8	6.0	50	(133)	183.4	100.0	183	—	55
Copper mining									2
Zinc business									
Hindustan Zinc	81	6.3	508	(257)	765	64.9	496	15.0	125
Zinc International	17	4.6	78	15	93	100.0	93	—	28
Other businesses									30
Less: investments and loans to VAL							86		(26)
Target price (Rs/ share)									220

Notes:

- (a) We have valued investments in the power business (Sterlite Energy) on DCF-to-equity implying a P/BV of 2X
(b) We have applied 15% holding company discount in case of stakes in Hindustan Zinc, BALCO, Sterlite Energy and CMT.

Source: Kotak Institutional Equities

We note that the STLT stock has witnessed upgrades in target prices and EPS by the Street in the last month. Exhibit 4 shows the monthly changes in consensus ratings, earnings and target prices of Sterlite and Hindalco. Sterlite's 4QFY11 net income of ₹19.2 bn was 37% ahead of our estimates due to excellent operational performance.

Exhibit 4: STLT has witnessed target price and earnings upgrades in the last month
Consensus ratings, EPS and target price revisions in the last one month

	EPS MoM (%)	TP MoM (%)	Net revisions (up - down)		Price (Rs)	Price change MoM in %	Target price (Rs)	TP upside (%)
			Ratings	EPS				
Sterlite Industries	4	3	0	9	168	(2)	212	26
Hindalco	0	(0)	3	0	193	(8)	244	26

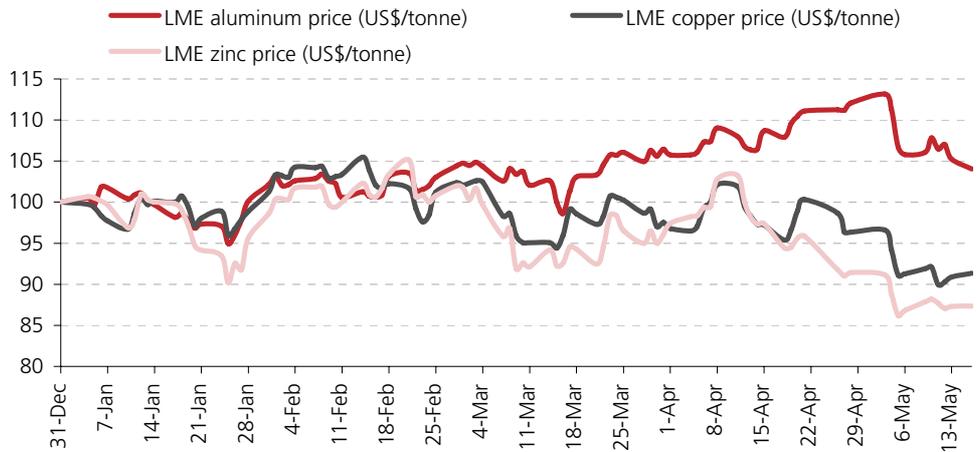
Notes:

- (a) Ratings and EPS net revisions are the difference between the upward and downward revisions in the last month.
(b) These are consensus estimates based on Factset's universe of brokers.
(c) EPS revisions reflect FY2012E revisions.

Source: Factset, Kotak Institutional Equities

- ▶ **Aluminum price correction will hurt Hindalco more than Sterlite.** We note that copper and zinc have corrected significantly over the past few weeks and are trading well below their January levels. However, aluminum has hardly seen any correction and is in fact meaningfully above its January levels (see Exhibit 5). Considering the high inventory build-up in both aluminum and zinc (see Exhibit 6), any correction in aluminum prices could be more negative for Hindalco as compared to STLT as it has a relatively higher exposure to aluminum compared to STLT (with only ~6% of its EBITDA coming from the aluminum segment).

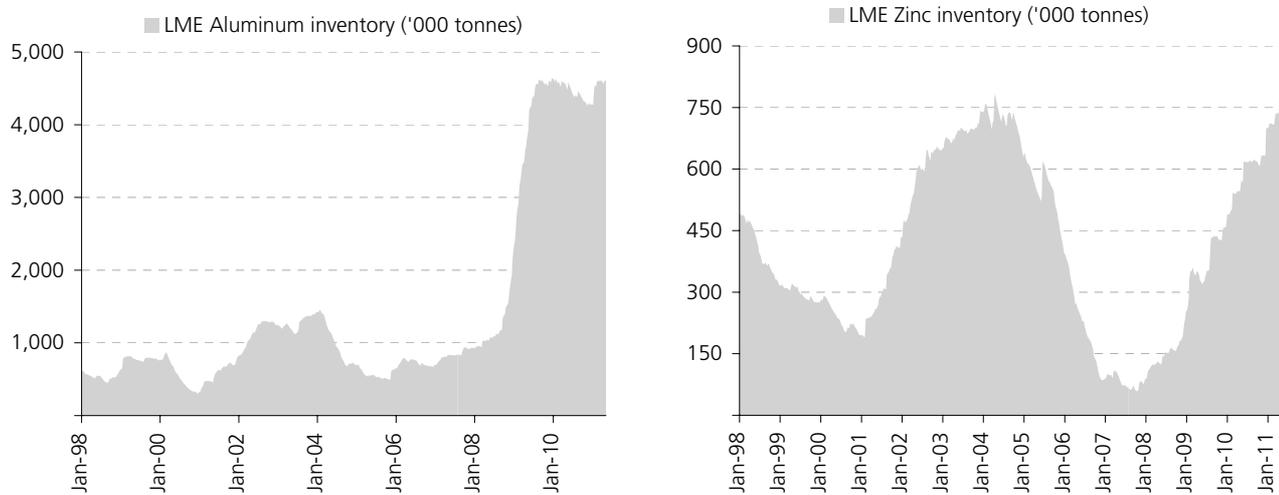
Exhibit 5: Aluminum has still not corrected as much as zinc
 LME metal price movements (base date - December 31, 2010)



Notes:
 (a) LME prices as of May 16, 2011.

Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: Inventories for aluminum and zinc are at all-time highs
 LME inventory for aluminum and zinc ('000 tonnes)



Source: Bloomberg, Kotak Institutional Equities

- ▶ Short-term volume growth looks more favorable for STLT; higher price risks in the case of aluminum. In Exhibit 7, we show our major assumptions on volume and price for STLT and Hindalco. We model STLT's zinc and lead volumes to reach 910,000 tonnes in 2012E (up 140,000 tonnes from FY2011E); STLT delivered 210,849 tonnes of zinc-lead volumes in 4QFY11. We see downward risks to our price assumptions of zinc if zinc prices sustain at current levels versus our price assumption of US\$2,300/tonne for FY2012E. However, we would note that current zinc prices are well below its five-year average price of US\$2,335/tonne. On the other hand, aluminum prices are well above its five-year average price of US\$2,285/tonne. It seems large speculation, as seen from very high inventory levels, is supporting aluminum prices at current high levels.

Exhibit 7: Sterlite's zinc and lead volumes will likely touch 910,000 tonnes in FY2012E

Volume and price assumptions for Sterlite and Hindalco ('000 tonnes)

	Volume assumptions ('000 tonnes)				Growth (%)			Price assumptions (US\$/tonne)			Historical prices	
	2010	2011E	2012E	2013E	2011E	2012E	2013E	2011	2012E	2013E	Spot 5-year avg.	
Hindalco Industries												
Aluminum	555	539	572	688	(2.9)	6.1	20.3	2,210	2,250	2,300	2,648	2,285
Copper	331	334	363	363	0.6	9.0	(0.0)	8,500	8,800	8,360	9,400	6,120
Novelis shipments	2,854	3,082	3,221	3,366	8.0	4.5	4.5					
Sterlite Industries												
Zinc	578	713	817	844	23.4	14.7	3.2	2,175	2,300	2,350	2,180	2,337
Lead	64	57	93	120	(11.1)	61.6	30.0	2,244	2,350	2,450	2,365	1,797
Copper	333	303	337	337	(9.0)	11.1	0.0	8,500	8,800	8,360	9,400	6,120
Aluminum	268	266	267	269	(0.6)	0.5	0.5	2,210	2,400	2,450	2,648	2,285

Source: Company reports, Kotak Institutional Equities estimates

- ▶ Global supply-demand balance; slightly more favorable for zinc versus aluminum. Exhibit 8 gives details of global demand and supply for zinc and aluminum.

Exhibit 8: Global supply-demand balance looks more favorable for zinc than for aluminum

Demand and supply trends for aluminum and zinc ('000 tonnes)

	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Demand and supply trends for aluminum ('000 tonnes)									
Total world smelting capacity	36,518	37,696	38,500	45,339	49,265	52,830	55,833	58,644	60,433
YoY change (%)		3.2	2.1	17.8	8.7	7.2	5.7	5.0	3.1
Total world smelting production	31,970	33,913	38,117	40,131	37,682	41,970	45,244	48,320	50,978
YoY change (%)		6.1	12.4	5.3	(6.1)	11.4	7.8	6.8	5.5
Total world consumption	31,980	34,501	37,982	37,417	34,316	40,995	44,480	47,593	50,639
YoY change (%)		7.9	10.1	(1.5)	(8.3)	19.5	8.5	7.0	6.4
Aluminum surplus/(deficit)	(10)	(588)	135	2,714	3,366	975	764	727	339
Demand and supply trends for zinc ('000 tonnes)									
Total world mine production	10128	10,430	11,125	11,664	11,316	12,309	13,183	13,987	14,575
YoY change (%)		3.0	6.7	4.8	(3.0)	8.8	7.1	6.1	4.2
Total smelter production capacity	12315	12,784	13,378	13,976	14,644	15,759	16,371	16,862	17,284
YoY change (%)		3.8	4.6	4.5	4.8	7.6	3.9	3.0	2.5
Total world smelter production	10218	10,643	11,360	11,645	11,290	12,779	13,566	14,263	14,771
YoY change (%)		4.2	6.7	2.5	(3.0)	13.2	6.2	5.1	3.6
Total world zinc consumption	10591	11,013	11,301	11,448	10,856	12,483	13,382	14,246	14,930
YoY change (%)		4.0	2.6	1.3	(5.2)	15.0	7.2	6.5	4.8
Zinc surplus/ (deficit)	(373)	(370)	59	197	434	296	184	17	(159)

Source: CRU, ILZSG, Kotak Institutional Equities estimates

March 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
16-May	17-May	18-May	19-May	20-May	21-May
		Bajaj Auto	Ashok Leyland	Karur Vysya Bank	REI Agro
		Bajaj Holdings & Investments	Chennai Petroleum Corp	Mahindra Forgings	
		DB Corp	Emami	MOIL	
		Eclerx Services	Gammon Infrastructure	Zee Learn	
		Radico Khaitan	Jet Airways		
			L&T		
			Redington		
			RICO		
			SREI		
			Tata Power		
			Wire & Wireless		
23-May	24-May	25-May	26-May	27-May	28-May
Balaji Telefilms	Apollo Hospitals	Cairn India	Aban Offshore	Britannia industries	Sun Pharma
GAIL	Bharat Forge	JM Financial	BGR Enegy Systems	City Union Bank	
Hotel Leela Ventures	Mandhana Industries	Madras Cements	Dishman Pharma	Reliance Infrastructure	
Karnataka Bank	Power Grid	Tata Steel	Engineers India	Reliance Power	
Satyam Computer	REC	Zee News	GSPL	Shree Cements	
Tata Chemicals	Tata Global Beverages		HPCL		
			Tata Motors		
			Tech Mahindra		
			VA Tech Wabag		
30-May	31-May				
BPCL					
Colgate Palmolive					
Godrej Industries					
IOCL					
Mahindra & Mahindra					
Reliance Capital					
Reliance Communications					
UTV Software Communications					

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-May-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
Automobiles																													
Ashok Leyland	48	SELL	64,253	1,423	1,330	4.3	4.7	5.7	53.5	8.1	22.3	11.2	10.3	8.4	7.7	7.4	5.5	1.4	1.3	1.2	2.1	2.1	2.1	13.6	13.4	14.7	56	15.9	6.4
Bajaj Auto	1,310	ADD	379,157	8,396	289	90.3	100.0	111.6	43.8	10.8	11.5	14.5	13.1	11.7	13.9	13.0	11.9	8.2	5.8	4.3	1.9	1.9	1.9	68.5	50.6	40.7	1,500	14.5	14.4
Bharat Forge	331	ADD	78,556	1,739	237	12.9	19.1	24.1	1,349.9	48.2	26.3	25.7	17.3	13.7	11.0	8.4	7.0	3.3	2.8	2.3	—	—	—	8.1	14.5	16.4	395	19.4	2.4
Exide Industries	158	ADD	134,258	2,973	850	7.3	8.8	10.8	15.4	20.1	23.4	21.7	18.0	14.6	15.2	12.7	10.5	4.9	4.0	3.2	0.8	0.8	0.8	25.0	24.4	24.5	175	10.8	5.7
Hero Honda	1,803	REDUCE	360,009	7,972	200	99.3	108.5	127.6	(11.1)	9.2	17.5	18.1	16.6	14.1	11.8	8.8	7.3	7.7	8.0	7.6	5.8	3.9	3.9	56.5	62.5	60.8	1,722	(4.5)	26.5
Mahindra & Mahindra	671	BUY	412,398	9,132	615	42.8	47.7	53.8	22.1	11.6	12.8	15.7	14.0	12.5	12.0	10.6	9.2	3.8	3.1	2.6	1.4	1.5	1.6	27.6	24.5	23.0	800	19.3	29.3
Maruti Suzuki	1,210	BUY	349,581	7,741	289	79.2	94.4	110.4	(8.4)	19.2	17.0	15.3	12.8	11.0	9.7	8.0	6.1	2.5	2.1	1.8	0.5	0.5	0.5	17.6	17.8	17.7	1,730	43.0	14.0
Tata Motors	1,189	ADD	790,103	17,496	665	129.9	133.6	159.2	603.4	2.9	19.1	9.2	8.9	7.5	6.3	5.9	5.1	3.7	2.6	2.0	0.5	0.5	0.5	58.6	34.9	30.5	1,305	9.8	64.7
Automobiles Cautious 2,568,315 56,871 84.6 9.0 17.2 13.1 12.0 10.2 8.9 7.9 6.7 3.9 3.1 2.5 1.6 1.4 30.1 26.2 24.6																													
Banks/Financial Institutions																													
Andhra Bank	138	BUY	77,222	1,710	560	22.6	23.7	27.9	5.0	4.7	17.6	6.1	5.8	5.0	—	—	—	1.2	1.0	0.9	4.0	4.2	4.9	23.2	19.0	19.5	190	37.7	3.2
Axis Bank	1,219	BUY	500,625	11,086	411	82.5	99.3	123.4	33.0	20.3	24.3	14.8	12.3	9.9	—	—	—	2.6	2.2	1.9	1.1	1.4	1.7	19.3	19.8	20.8	1,700	39.4	52.2
Bank of Baroda	863	BUY	339,088	7,509	393	108.0	116.4	139.6	29.1	7.8	19.9	8.0	7.4	6.2	—	—	—	1.7	1.4	1.2	1.9	2.1	2.5	25.3	21.1	21.3	1,250	44.8	9.4
Bank of India	402	ADD	220,037	4,872	547	45.5	60.5	69.9	37.4	33.1	15.5	8.8	6.6	5.8	—	—	—	1.4	1.2	1.0	1.7	2.3	2.7	17.3	19.2	19.0	560	39.3	10.5
Canara Bank	543	ADD	240,416	5,324	443	90.9	91.3	108.9	23.3	0.5	19.3	6.0	5.9	5.0	—	—	—	1.3	1.1	0.9	2.0	2.2	2.2	23.2	18.6	18.9	700	29.0	15.3
Corporation Bank	550	ADD	81,479	1,804	148	95.4	96.1	114.1	16.4	0.7	18.7	5.8	5.7	4.8	—	—	—	1.1	1.0	0.9	3.6	3.5	4.2	21.9	18.5	19.0	700	27.3	1.1
Federal Bank	436	BUY	74,595	1,652	171	34.3	44.9	57.0	26.3	31.0	26.7	12.7	9.7	7.7	—	—	—	1.5	1.3	1.2	1.9	2.6	3.2	12.0	14.3	16.2	500	14.7	4.5
HDFC	632	REDUCE	926,494	20,516	1,467	24.1	27.9	31.8	22.4	15.9	14.1	26.2	22.6	19.8	—	—	—	5.4	4.7	3.6	1.4	1.7	2.0	21.7	22.2	21.4	745	18.0	46.2
HDFC Bank	2,252	ADD	1,047,907	23,204	465	84.4	110.7	143.5	31.0	31.2	29.6	26.7	20.3	15.7	—	—	—	4.1	3.6	3.0	0.7	1.0	1.2	16.7	18.8	20.9	2,500	11.0	47.7
ICICI Bank	1,040	ADD	1,197,605	26,519	1,152	44.7	58.2	69.0	23.9	30.1	18.7	23.2	17.9	15.1	—	—	—	2.2	2.0	1.9	1.3	1.7	2.0	9.7	11.8	12.9	1,300	25.0	103.6
IDFC	127	ADD	191,950	4,250	1,506	8.8	10.5	12.9	4.8	19.4	22.9	14.5	12.2	9.9	—	—	—	1.8	1.5	1.4	1.2	1.6	1.9	14.7	13.8	14.7	170	33.4	24.9
India Infoline	76	BUY	24,770	548	327	7.3	7.8	8.9	(9.8)	5.8	15.3	10.3	9.8	8.5	—	—	—	1.4	1.2	1.1	3.8	2.2	2.5	13.1	13.4	13.5	95	25.5	1.6
Indian Bank	226	BUY	97,042	2,149	430	38.8	43.7	53.3	10.5	12.5	22.1	5.8	5.2	4.2	—	—	—	1.2	1.0	0.9	3.3	3.5	4.2	22.3	21.1	21.8	350	55.0	2.3
Indian Overseas Bank	151	ADD	93,493	2,070	619	17.3	23.5	30.7	33.6	35.4	30.9	8.7	6.4	4.9	—	—	—	1.1	1.0	0.8	3.3	2.8	3.1	12.7	14.6	16.8	190	25.7	3.6
IndusInd Bank	241	BUY	112,158	2,484	466	12.4	15.4	18.7	45.3	23.9	21.7	19.4	15.7	12.9	—	—	—	3.1	2.7	2.3	0.8	1.0	1.3	20.0	17.4	18.3	315	30.8	6.0
J&K Bank	802	ADD	38,889	861	48	126.9	136.9	152.9	20.1	7.9	11.7	6.3	5.9	5.2	—	—	—	1.1	1.0	0.9	3.2	3.5	3.9	19.0	17.8	17.4	900	12.2	0.7
LIC Housing Finance	210	ADD	99,787	2,210	475	20.5	22.4	27.6	47.2	9.0	23.3	10.2	9.4	7.6	—	—	—	2.4	2.0	1.7	2.1	2.3	2.8	25.8	23.3	24.0	270	28.5	41.8
Mahindra & Mahindra Financial	650	ADD	66,573	1,474	102	45.2	61.9	70.9	26.0	36.9	14.6	14.4	10.5	9.2	—	—	—	2.7	2.3	2.0	1.6	2.1	2.4	22.0	23.3	22.5	925	42.4	2.7
Oriental Bank of Commerce	325	ADD	94,793	2,099	292	51.5	56.8	65.8	13.7	10.3	15.8	6.3	5.7	4.9	—	—	—	0.9	0.8	0.7	3.2	3.5	4.1	15.5	14.2	14.8	450	38.5	5.8
PFC	221	REDUCE	253,083	5,604	1,148	22.8	27.3	32.4	11.0	19.7	19.0	9.7	8.1	6.8	—	—	—	1.7	1.5	1.3	2.1	2.5	2.9	18.3	19.0	19.5	250	13.4	4.9
Punjab National Bank	1,059	BUY	335,438	7,428	317	139.9	166.4	201.5	13.0	18.9	21.1	7.6	6.4	5.3	—	—	—	1.6	1.4	1.1	2.7	3.2	3.9	24.0	23.5	23.7	1,500	41.7	7.5
Reliance Capital	519	ADD	127,819	2,830	246	6.6	17.0	27.9	(49.8)	159.7	63.6	79.1	30.5	18.6	—	—	—	1.8	1.8	1.7	0.5	1.3	2.1	2.3	5.9	9.3	620	19.4	37.4
Rural Electrification Corp.	219	REDUCE	215,942	4,782	987	25.5	29.2	33.3	25.9	14.5	13.8	8.6	7.5	6.6	—	—	—	1.7	1.5	1.3	3.5	4.0	4.6	21.2	21.2	21.0	275	25.7	16.3
Shriram Transport	639	REDUCE	142,609	3,158	223	55.1	64.9	77.3	40.8	17.8	19.0	11.6	9.8	8.3	—	—	—	3.0	2.5	2.0	1.7	2.0	2.4	28.1	26.5	25.8	860	34.6	8.6
SKS Microfinance	362	REDUCE	26,693	591	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	23.1	(9.3)	93.5	—	—	—	1.5	1.7	1.7	—	—	—	8.3	(17.4)	1.9	350	(3.4)	5.9
State Bank of India	2,415	BUY	1,545,408	34,221	640	129.1	212.3	264.6	(10.6)	64.4	24.6	18.7	11.4	9.1	—	—	—	2.4	2.0	1.7	1.2	1.3	1.4	12.6	19.3	20.3	3,100	28.4	144.0
Union Bank	318	BUY	167,265	3,704	525	39.4	52.0	62.2	(4.0)	31.8	19.8	8.1	6.1	5.1	—	—	—	1.5	1.3	1.1	2.5	3.3	3.9	20.9	22.5	22.6	425	33.5	5.4
Yes Bank	288	BUY	97,960	2,169	340	21.1	26.3	33.1	40.4	24.7	25.9	13.7	11.0	8.7	—	—	—	2.6	2.2	1.8	0.7	0.9	1.1	21.0	21.7	22.4	420	45.6	19.2
Banks/Financial Institutions Attractive 8,437,140 186,828 19.3 24.6 22.0 13.9 11.2 9.2 — — — 2.2 1.9 1.6 1.6 1.8 2.1 15.8 17.2 17.9																													
Cement																													
ACC	999	REDUCE	187,730	4,157	188	55.6	63.8	79.1	(33.2)	14.8	24.1	18.0	15.7	12.6	10.9	8.8	6.7	2.7	2.5	2.2	3.6	2.3	2.3	17.5	18.2	19.4	1,050	5.1	7.7
Ambuja Cements	135	SELL	205,597	4,553	1,522	7.9	8.4	10.9	(1.5)	6.6	29.2	17.1	16.1	12.4	10.4	8.8	6.6	2.6	2.4	2.1	1.5	1.7	1.8	16.6	15.8	18.3	145	7.4	11.1
Grasim Industries	2,317	BUY	212,446	4,704	92	233.3	277.7	319.7	(22.5)	19.0	15.1	9.9	8.3	7.2	6.3	4.8	3.8	1.5	1.3	1.1	1.5	1.5	1.5	15.8	16.3	16.3	3,100	33.8	6.2
India Cements	84	REDUCE	25,787	571	307	3.6	12.9	14.1	(63.7)	254.3	9.1	23.1	6.5</																

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-May-11 Price (Rs)	Rating	Mkt cap.		O/S shares (mm)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target Price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
			(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
Consumer products																													
Asian Paints	2,849	REDUCE	273,261	6,051	96	80.8	94.6	111.4	13.0	17.1	17.7	35.3	30.1	25.6	23.5	19.1	15.7	13.3	10.3	8.3	1.1	1.0	1.2	43.9	40.0	36.8	2,900	1.8	5.1
Colgate-Palmolive (India)	903	SELL	122,781	2,719	136	29.5	34.3	39.3	(5.2)	16.2	14.7	30.6	26.3	23.0	26.2	22.7	19.0	32.7	28.4	23.3	2.5	2.9	3.1	114.5	115.7	111.5	780	(13.6)	1.8
Dabur India	104	ADD	179,439	3,973	1,731	3.3	3.7	4.3	13.4	11.8	16.5	31.5	28.2	24.2	24.9	20.4	17.6	13.8	10.6	8.5	1.1	1.2	1.4	51.5	43.3	39.5	110	6.1	3.0
GlaxoSmithkline Consumer (a)	2,157	ADD	90,733	2,009	42	71.3	85.4	101.5	28.8	19.8	18.9	30.3	25.3	21.2	21.5	18.3	15.1	9.7	7.9	6.4	2.3	1.3	1.5	32.2	33.5	32.5	2,700	25.1	0.5
Godrej Consumer Products	383	ADD	123,967	2,745	324	14.6	17.3	20.7	29.1	18.3	19.7	26.2	22.1	18.5	21.2	16.6	13.6	6.9	6.5	5.9	1.2	0.8	0.8	34.6	30.4	33.3	470	22.7	1.2
Hindustan Unilever	309	ADD	667,158	14,773	2,159	9.6	11.3	13.4	2.1	17.7	17.9	32.1	27.3	23.1	26.4	22.6	18.5	25.3	21.7	18.5	2.5	3.0	3.5	80.6	85.8	86.5	340	10.1	13.7
ITC	188	ADD	1,439,858	31,883	7,665	6.5	7.9	9.0	22.6	21.7	14.0	28.9	23.7	20.8	19.2	15.8	13.5	8.3	7.2	6.3	1.5	2.0	2.4	32.5	33.8	33.4	205	9.1	32.3
Jubilant Foodworks	699	SELL	45,108	999	65	11.2	14.7	20.0	98.7	31.7	35.9	62.7	47.6	35.0	37.6	25.5	19.1	23.6	15.8	10.9	—	—	—	46.5	39.7	36.7	550	(21.3)	19.9
Jyothy Laboratories	208	ADD	16,759	371	81	10.4	12.7	14.7	(5.4)	21.3	15.8	19.9	16.4	14.2	14.3	10.9	8.6	2.4	2.2	2.0	1.7	2.3	2.8	11.8	13.8	14.6	240	15.5	1.3
Marico	130	ADD	79,502	1,760	612	4.2	5.5	6.5	10.9	29.4	18.6	30.8	23.8	20.1	20.7	16.4	13.7	8.5	6.6	5.2	0.6	0.7	0.9	32.8	31.8	29.5	160	23.1	1.1
Nestle India (a)	4,117	REDUCE	396,910	8,789	96	86.8	104.6	123.9	16.7	20.5	18.4	47.4	39.4	33.2	31.5	25.6	21.2	46.4	33.4	25.1	1.2	1.5	1.7	116.5	98.7	86.3	3,500	(15.0)	2.9
Tata Global Beverages	96	ADD	59,583	1,319	618	5.2	5.9	6.9	(14.6)	14.3	17.0	18.6	16.3	13.9	9.1	8.2	6.9	1.2	1.1	1.1	1.8	2.0	2.4	8.4	9.1	10.0	110	14.2	3.5
Titan Industries	4,119	ADD	182,826	4,048	44	105.3	130.7	153.6	83.9	24.0	17.6	39.1	31.5	26.8	28.5	21.8	17.8	15.8	10.9	8.0	0.3	0.3	0.4	49.4	41.0	34.4	4,800	16.5	33.3
United Spirits	1,068	ADD	134,172	2,971	126	29.5	39.2	50.6	8.3	32.8	29.0	36.2	27.2	21.1	17.7	13.6	11.7	3.1	2.8	2.5	0.3	0.2	0.4	9.1	10.7	12.5	1,300	21.7	9.8
Consumer products																													
Constructions																													
IVRCL	72	BUY	19,131	424	267	7.0	8.9	12.6	(11.7)	28.1	40.7	10.3	8.0	5.7	7.0	6.0	4.9	0.9	0.8	0.7	0.6	0.6	0.6	9.6	11.2	13.9	125	74.5	7.4
Nagarjuna Construction Co.	95	BUY	24,427	541	257	7.2	9.7	13.1	1.2	34.3	35.4	13.2	9.8	7.3	8.9	7.3	5.6	1.0	1.0	0.9	2.1	2.1	2.1	8.0	10.1	12.5	160	68.1	2.8
Punj Lloyd	61	REDUCE	20,613	456	340	1.3	8.5	12.6	(137.2)	567.0	48.2	47.6	7.1	4.8	7.8	5.6	4.6	0.7	0.6	0.6	0.1	1.2	1.8	1.4	9.0	12.2	90	48.3	8.5
Sadbhav Engineering	130	BUY	19,425	430	150	8.0	10.0	12.1	55.1	25.4	21.1	16.2	13.0	10.7	10.0	8.2	6.9	3.0	2.5	2.0	0.5	0.5	0.5	18.6	19.2	19.0	190	46.7	0.6
Construction																													
Energy																													
Aban Offshore	592	BUY	25,760	570	44	104.6	107.6	116.9	(1.9)	2.9	8.7	5.7	5.5	5.1	6.5	6.4	6.2	1.2	1.0	0.9	0.6	0.7	0.8	26.1	20.4	18.0	815	37.7	16.5
Bharat Petroleum	645	ADD	233,266	5,165	362	36.6	42.7	56.1	(36.4)	16.5	31.3	17.6	15.1	11.5	12.1	10.9	8.3	1.6	1.5	1.4	1.7	2.2	2.9	8.7	9.5	11.6	765	18.6	9.4
Cairn India	335	REDUCE	634,822	14,057	1,897	33.7	65.6	64.2	507.8	94.7	(2.1)	9.9	5.1	5.2	7.7	3.7	3.3	1.6	1.3	1.1	—	1.5	6.0	17.3	27.8	23.0	—	—	64.8
Castrol India (a)	496	SELL	122,750	2,718	247	19.8	20.7	21.3	28.7	4.6	2.7	25.0	23.9	23.3	15.9	15.8	15.1	23.8	21.8	20.6	3.0	3.2	3.4	100.5	95.0	90.9	385	(22.4)	1.6
GAIL (India)	433	REDUCE	549,632	12,171	1,268	29.3	34.7	43.6	18.5	18.4	25.4	14.8	12.5	9.9	9.5	9.1	7.1	2.6	2.3	1.9	2.0	2.3	3.2	18.1	18.6	19.8	510	17.7	10.8
GSPL	100	REDUCE	56,104	1,242	562	8.5	8.6	10.4	16.8	0.9	20.9	11.7	11.6	9.6	7.3	6.8	5.9	2.6	2.3	2.1	2.1	3.5	5.2	24.9	21.1	22.6	90	(9.8)	2.6
Hindustan Petroleum	374	ADD	126,942	2,811	339	25.8	30.8	40.5	(50.0)	19.6	31.5	14.5	12.1	9.2	4.5	3.7	2.9	0.9	0.8	0.8	2.2	2.6	3.4	6.0	6.8	8.4	470	25.5	8.2
Indian Oil Corporation	336	ADD	815,306	18,054	2,428	31.7	30.9	36.7	(35.4)	(2.5)	18.8	10.6	10.9	9.1	7.8	7.7	6.0	1.4	1.3	1.2	2.8	2.8	3.3	12.9	11.7	12.8	435	29.5	5.4
Oil India	1,291	BUY	310,318	6,872	240	140.9	151.2	181.7	22.3	7.3	20.2	9.2	8.5	7.1	4.1	3.6	2.8	1.8	1.6	1.4	3.5	3.9	4.6	18.9	17.9	18.9	1,550	20.1	2.2
Oil & Natural Gas Corporation	277	BUY	2,373,309	52,553	8,556	28.6	34.9	39.6	24.5	22.3	13.3	9.7	7.9	7.0	3.9	3.3	2.7	1.7	1.5	1.3	5.0	4.3	5.0	16.5	18.5	18.5	360	29.8	28.9
Petronet LNG	134	SELL	100,463	2,225	750	8.1	9.3	9.5	50.5	15.0	1.8	16.5	14.3	14.1	9.8	8.9	9.1	3.3	2.8	2.5	1.5	2.2	2.2	20.9	20.2	17.7	105	(21.6)	5.4
Reliance Industries	921	REDUCE	2,741,696	60,711	2,978	62.0	68.5	73.1	24.8	10.5	6.7	14.9	13.4	12.6	8.0	7.1	6.3	1.7	1.5	1.3	0.9	1.0	1.1	13.0	12.9	12.3	1,100	19.5	108.6
Energy																													
Industrials																													
ABB	864	SELL	183,036	4,053	212	3.0	21.1	27.3	(82.2)	606.1	29.6	289.5	41.0	31.6	211.3	27.7	20.7	7.6	6.6	5.6	0.2	0.4	0.4	2.6	17.1	19.1	700	(19.0)	3.0
BGR Energy Systems	488	REDUCE	35,114	778	72	40.9	46.4	46.0	46.3	13.4	(0.9)	11.9	10.5	10.6	7.4	6.4	6.0	3.8	3.0	2.4	1.7	1.9	1.9	36.0	31.6	25.2	600	23.0	7.7
Bharat Electronics	1,710	REDUCE	136,792	3,029	80	102.9	120.8	133.9	7.0	17.4	10.8	16.6	14.2	12.8	10.3	7.6	6.6	2.7	2.4	2.1	1.5	1.5	1.5	17.2	17.7	17.2	2,000	17.0	1.0
Bharat Heavy Electricals	2,056	REDUCE	1,006,233	22,282	490	115.5	140.1	156.2	31.4	21.3	11.5	17.8	14.7	13.2	12.1	9.6	8.2	5.0	4.0	3.2	1.2	1.5	1.6	31.3	30.2	27.1	2,275	10.7	38.9
Crompton Greaves	242	BUY	154,922	3,431	642	14.3	15.5	17.9	11.5	8.0	15.6	16.9	15.6	13.5	11.2	9.3	7.6	4.7	3.8	3.1	0.8	0.8	1.0	31.7	26.9	25.2	310	28.4	8.4
Larsen & Toubro	1,506	REDUCE	911,159	20,176	605	73.0	82.0	96.4	26.0	12.3	17.6	20.6	18.4	15.6	12.6	10.8	9.3	3.4	2.9	2.5	0.8	0.9	0.9	17.9	17.0	17.2	1,775	17.9	68.8
Maharashtra Seamless	364	ADD	25,659	568	71	46.6	42.4	47.2	20.6	(9.0)	11.4	7.8	8.6	7.7	3.8	4.0	3.3	1.0	0.9	0.9	2.3	2.3	2.6	13.4	11.2	11.6	418	14.9	0.4
Siemens	846	REDUCE	285,254	6,317	337	22.4	31.7	33.6	39.5	41.3	5.9	37.7	26.7	25.2	22.3	16.9	15.6	8.8	7.0	5.8	0.6	0.8	0.8	25.2	29.3	25.2	860	1.6	13.3
Suzlon Energy	51	REDUCE	81,758	1,810	1,594	(6.0)	(0.0)	4.6	(2.8)	(99.9)	(62,927.5)	(8.6)	(7,049.6)	11.2	30.3	9.9	6.5	1.2	1.3	1.2	—	—	—	0.4	(14.4)	(0.0)	11.1	5.7	28.2
Thermax	585	REDUCE	69,738	1,544	119	32.0	35.6	39.9	46.1	11.0																			

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-May-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E				
Media																														
DB Corp	239	BUY	43,406	961	182	12.6	14.0	17.0	18.8	10.8	21.6	18.9	17.1	14.0	11.1	10.1	8.3	5.5	4.7	4.1	1.7	2.5	3.3	31.8	29.7	31.2	325	36.0	0.2	
DishTV	69	ADD	72,860	1,613	1,062	(1.8)	(0.4)	1.0	(27.3)	(79.2)	(379.6)	(38.2)	(183.8)	65.7	34.5	17.2	11.2	34.8	42.9	25.9	—	—	—	(62.5)	(20.9)	49.2	70	2.0	3.7	
Eros International	142	BUY	13,141	291	93	12.6	16.6	20.9	30.1	32.5	25.3	11.3	8.5	6.8	7.8	6.2	4.6	1.9	1.5	1.2	—	—	—	24.7	19.8	20.1	200	41.1	0.5	
Hindustan Media Ventures	151	BUY	11,099	246	73	7.3	9.0	12.0	198.7	22.7	33.9	20.7	16.8	12.6	10.2	8.9	6.5	2.8	2.3	2.1	—	—	—	2.0	22.3	15.1	17.5	200	32.2	0.1
HT Media	156	ADD	36,695	813	235	7.7	8.6	11.3	26.3	11.5	31.2	20.2	18.2	13.8	9.7	8.3	6.4	2.6	2.5	2.3	1.3	2.6	3.8	15.0	13.9	17.1	170	8.9	0.4	
Jagran Prakashan	117	BUY	35,204	780	301	7.0	7.9	9.3	19.2	13.4	18.4	16.8	14.8	12.5	9.7	8.7	7.3	5.2	4.7	4.3	3.4	4.3	5.1	32.4	33.4	36.1	155	32.6	0.4	
Sun TV Network	395	ADD	155,622	3,446	394	19.6	23.1	27.1	48.7	17.7	17.5	20.1	17.1	14.6	12.2	10.3	8.7	6.6	5.9	5.4	2.5	3.5	4.6	37.2	38.3	40.6	450	14.0	3.3	
Zee Entertainment Enterprises	131	ADD	128,508	2,846	978	5.8	7.0	8.1	9.1	21.5	15.7	22.7	18.7	16.1	15.3	12.1	10.3	3.0	2.9	2.8	1.0	1.2	1.3	14.0	16.3	18.2	145	10.4	5.6	
Media		Neutral	496,536	10,995					48.5	27.5	25.9	25.6	20.1	15.9	13.5	10.9	8.8	4.6	4.3	3.9	1.5	2.1	2.8	18.0	21.2	24.4				
Metals & Mining																														
Coal India	398	BUY	2,511,386	55,611	6,316	17.0	24.0	28.0	11.7	41.0	16.8	23.4	16.6	14.2	15.1	11.1	9.2	7.4	5.8	4.6	1.3	1.8	2.1	35.1	39.0	36.0	390	(1.9)	33.3	
Hindalco Industries	193	ADD	370,263	8,199	1,914	16.4	17.7	19.6	(17.9)	8.1	10.5	11.8	10.9	9.9	7.5	7.3	7.2	1.5	1.4	1.2	0.7	0.7	0.7	13.7	13.2	13.0	250	29.2	36.6	
Hindustan Zinc	132	BUY	555,799	12,307	4,225	11.6	14.6	16.0	21.8	25.1	9.5	11.3	9.0	8.2	7.2	4.7	3.7	2.4	1.9	1.6	0.8	0.8	0.8	24.2	24.3	21.5	170	29.2	6.2	
Jindal Steel and Power	645	REDUCE	602,810	13,348	934	40.2	51.3	58.6	5.1	27.6	14.2	16.1	12.6	11.0	11.5	9.2	8.5	4.0	3.0	2.4	0.3	0.3	0.3	30.8	29.3	25.7	700	8.5	18.9	
JSW Steel	924	REDUCE	229,221	5,076	248	78.6	87.4	113.7	(2.2)	11.2	30.0	11.7	10.6	8.1	7.6	5.5	5.2	1.2	1.0	0.9	1.2	1.0	1.0	11.9	10.3	11.4	990	7.2	35.2	
National Aluminium Co.	90	SELL	232,338	5,145	2,577	4.6	5.1	6.2	50.5	12.0	20.2	19.7	17.6	14.6	10.9	9.3	7.3	2.1	1.9	1.7	1.4	1.4	1.4	10.9	11.3	12.5	76	(15.7)	1.8	
Sesa Goa	300	REDUCE	266,866	5,909	890	47.5	41.9	36.7	60.6	(11.8)	(12.3)	6.3	7.2	8.2	3.3	5.0	5.4	2.0	1.6	1.3	1.3	1.3	1.4	36.6	23.2	17.2	305	1.7	23.3	
Sterite Industries	168	BUY	564,758	12,506	3,362	15.2	21.3	24.4	26.2	40.2	14.8	11.1	7.9	6.9	7.4	4.6	3.7	1.4	1.2	1.0	0.7	0.7	0.7	13.0	15.9	15.7	220	31.0	20.0	
Tata Steel	574	BUY	557,541	12,346	971	67.9	70.7	85.6	(2,069.6)	4.1	21.1	8.5	8.1	6.7	6.5	6.1	5.3	1.6	1.4	1.1	1.4	—	—	—	22.7	18.0	18.6	750	30.7	63.7
Metals & Mining		Attractive	5,890,984	130,447					39.0	22.5	14.1	14.2	11.6	10.2	8.9	7.2	6.3	2.7	2.3	1.9	1.0	1.1	1.3	19.1	19.4	18.6				
Pharmaceutical																														
Apollo Hospitals	489	BUY	62,949	1,394	129	14.0	19.0	22.1	28.2	35.7	16.0	34.8	25.7	22.1	15.3	12.2	10.6	3.5	3.0	2.6	—	—	—	10.4	12.1	12.2	565	15.6	0.8	
Biocon	355	BUY	70,940	1,571	200	18.4	21.6	24.2	23.8	17.4	12.3	19.3	16.4	14.6	11.1	9.5	8.4	3.4	2.9	2.5	—	—	—	19.4	19.4	18.7	480	35.3	3.2	
Cipla	306	REDUCE	245,694	5,441	803	12.1	16.3	18.8	(12.0)	35.4	15.4	25.4	18.7	16.2	20.6	14.6	12.2	3.7	3.2	2.7	0.8	0.8	0.8	15.4	18.2	—	330	7.8	9.4	
Cadila Healthcare	890	BUY	182,175	4,034	205	34.7	42.2	51.7	40.6	21.4	22.7	25.6	21.1	17.2	22.1	16.4	13.2	8.4	6.4	5.0	0.7	0.9	1.2	37.5	34.5	32.8	1,130	27.0	1.8	
Dishman Pharma & chemicals	90	SELL	7,348	163	81	8.8	8.2	9.8	(39.2)	(6.4)	19.1	10.3	11.0	9.2	9.8	7.4	6.5	0.9	0.8	0.8	—	—	—	8.7	7.6	8.5	85	(5.9)	0.3	
Divi's Laboratories	712	REDUCE	94,467	2,092	133	26.8	37.1	45.7	3.9	38.6	23.4	26.6	19.2	15.6	21.0	14.1	11.1	5.4	4.5	3.7	—	—	—	21.7	25.6	26.3	700	(1.7)	3.2	
GlaxoSmithkline Pharmaceuticals (a)	2,360	REDUCE	199,891	4,426	85	68.3	80.2	91.8	15.5	17.5	14.4	34.6	29.4	25.7	23.3	20.1	17.1	10.2	9.4	8.5	—	—	—	30.9	33.3	34.7	2,300	(2.5)	1.8	
Glenmark Pharmaceuticals	304	REDUCE	85,187	1,886	280	17.6	20.6	25.9	38.3	17.3	25.9	17.3	14.8	11.7	15.3	12.2	10.0	3.0	2.6	2.2	—	—	—	18.4	18.2	19.3	330	8.5	5.3	
Jubilant Life Sciences	168	REDUCE	26,731	592	159	14.4	16.4	19.3	(45.6)	13.7	17.4	11.6	10.2	8.7	10.1	8.4	7.6	1.2	1.1	1.0	1.2	1.5	2.1	12.3	11.5	12.2	195	16.2	0.9	
Lupin	444	ADD	198,024	4,385	446	19.3	20.4	25.2	26.1	5.6	23.3	23.0	21.7	17.6	19.3	16.0	13.0	5.9	4.9	4.0	0.7	0.8	0.9	29.5	25.0	25.2	500	12.7	9.6	
Ranbaxy Laboratories	501	SELL	214,736	4,755	428	23.4	20.3	21.9	231.8	(13.3)	7.6	21.4	24.7	22.9	15.7	16.4	15.7	3.9	3.3	2.9	—	—	—	19.5	13.9	13.0	365	(27.2)	12.5	
Sun Pharmaceuticals	442	ADD	457,321	10,127	1,036	17.4	19.7	24.1	33.4	13.1	22.6	25.4	22.4	18.3	21.2	17.4	13.9	4.8	4.0	3.3	0.6	0.6	0.6	21.0	19.9	20.5	480	8.7	10.1	
Pharmaceuticals		Cautious	2,206,991	48,870					18.9	15.4	4.8	25.2	21.8	20.8	17.2	14.1	13.6	3.7	3.2	3.0	0.5	0.5	0.5	14.7	14.5	14.3				
Property																														
DLF	228	ADD	390,281	8,642	1,714	10.0	13.8	22.4	(5.5)	37.3	62.7	22.7	16.5	10.2	14.5	12.0	7.5	1.2	1.2	1.1	1.3	2.2	2.2	5.5	7.3	11.1	265	16.4	32.4	
Housing Development & Infrastructure	160	ADD	70,494	1,561	441	23.0	28.4	34.2	44.0	23.9	20.1	7.0	5.6	4.7	8.2	5.0	3.4	0.8	0.6	0.6	—	—	—	11.8	12.5	13.1	180	12.6	22.8	
Indiabulls Real Estate	114	RS	45,715	1,012	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	28.6	13.4	7.4	18.2	14.8	6.5	0.4	0.4	0.4	—	—	—	0.6	1.4	2.9	50	—	12.5	
Mahindra Life Space Developer	367	ADD	14,987	332	41	25.0	29.7	37.2	30.3	18.9	25.4	14.7	12.4	9.9	11.4	8.1	5.9	1.5	1.3	1.2	1.4	1.2	1.4	10.4	11.2	12.7	470	28.0	0.2	
Oberoi Realty	230	BUY	75,661	1,675	330	15.7	20.0	28.0	14.7	27.6	39.7	14.6	11.5	8.2	10.7	7.4	4.6	2.3	1.9	1.6	0.4	0.7	1.1	19.9	18.2	21.3	315	37.3	0.3	
Phoenix Mills	196	BUY	28,426	629	145	6.3	7.5	10.7	52.5	18.4	43.8	31.1	26.3	18.3	23.7	18.8	13.9	1.8	1.7	1.6	0.8	1.0	1.0	5.8	6.6	8.9	300	52.9	0.6	
Puravankara Projects	105	REDUCE	22,484	498	213	5.5	9.1	11.2	(18.9)	65.2	22.4	19.1	11.5	9.4	22.8	11.5	9.5	1.5	1.3	1.2	0.9	1.4	2—	8.0	12.1	13.4	110	4.4	0.2	
Sobha Developers	265	BUY	25,982	575	98	18.7	23.4	27.7	3																					

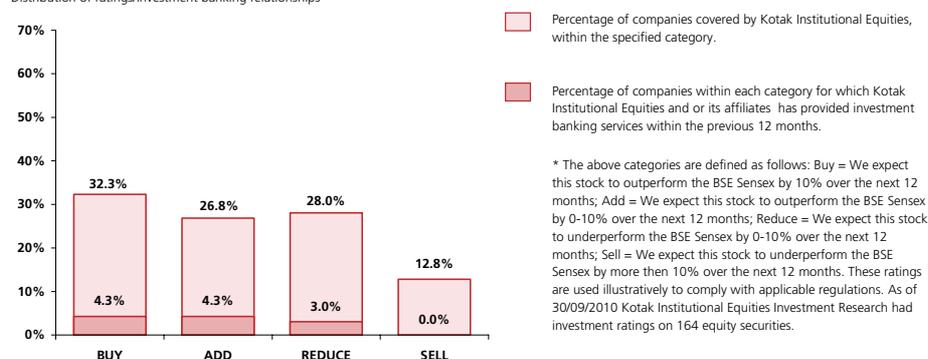
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-May-11		Mkt cap.		O/S shares (mm)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
Sugar																													
Bajaj Hindustan	68	SELL	15,554	344	228	(8.0)	(1.2)	2.1	(348.8)	(85.6)	(282.4)	(8.5)	(58.8)	32.3	18.5	7.6	6.3	0.5	0.5	0.5	0.9	0.9	0.9	(6.0)	(0.9)	1.6	80	17.5	2.5
Balrampur Chini Mills	67	ADD	17,254	382	257	0.8	8.3	8.4	(89.9)	974.0	1.0	86.7	8.1	8.0	11.8	5.2	4.2	1.3	1.1	1.0	0.7	0.7	0.7	1.5	14.8	13.1	90	33.9	2.3
Shree Renuka Sugars	61	REDUCE	40,657	900	670	10.5	4.3	5.9	214.4	(59.5)	37.9	5.8	14.3	10.3	4.1	2.8	2.0	1.6	1.3	1.1	1.6	1.6	1.6	34.4	11.1	13.8	75	23.6	9.9
Sugar		Cautious	73,465	1,627					18.4	(17.0)	39.1	12.9	15.5	11.2	8.4	4.5	3.4	1.1	1.0	0.9	1.3	1.3	1.3	8.3	6.1	7.7			
Technology																													
HCL Technologies	503	REDUCE	354,686	7,854	705	23.1	30.8	36.4	31.9	33.4	18.1	21.8	16.3	13.8	13.3	10.1	8.5	4.5	3.8	3.2	1.5	1.6	1.6	22.1	25.4	25.5	490	(2.6)	11.8
Hexaware Technologies	65	BUY	19,002	421	291	3.0	6.6	7.4	(36.5)	122.6	11.3	22.0	9.9	8.9	16.7	7.5	6.0	2.0	1.7	1.5	2.3	1.9	2.3	9.4	18.5	17.9	80	22.5	3.4
Infosys Technologies	2,844	BUY	1,632,542	36,150	574	119.7	144.8	172.6	10.5	20.9	19.2	23.8	19.6	16.5	16.3	13.2	10.9	6.3	5.2	4.3	2.1	1.5	1.8	28.0	29.0	28.7	3,450	21.3	107.4
Mahindra Satyam	74	REDUCE	87,553	1,939	1,176	3.1	4.3	5.6	24.7	37.4	32.5	24.0	17.5	13.2	14.9	8.9	6.3	4.2	3.9	3.2	—	—	—	18.5	23.2	26.9	70	(6.0)	9.9
Mindtree	356	REDUCE	14,670	325	41	24.7	33.9	38.6	(52.7)	37.3	14.0	14.4	10.5	9.2	8.0	6.1	4.9	1.9	1.6	1.5	0.7	1.0	3.3	14.4	16.6	16.7	370	3.8	0.7
Mphasis BFL	440	SELL	92,792	2,055	211	51.8	37.3	38.1	18.8	(28.0)	2.2	8.5	11.8	11.6	7.2	8.7	7.5	2.8	2.3	2.0	0.9	1.0	1.1	38.6	21.6	18.6	420	(4.6)	11.2
Polaris Software Lab	197	SELL	19,606	434	100	19.3	18.9	20.9	25.7	(2.2)	10.8	10.2	10.4	9.4	6.8	5.6	4.9	1.9	1.6	1.4	1.9	2.0	2.1	20.2	16.9	16.4	175	(11.0)	4.8
TCS	1,142	BUY	2,234,535	49,480	1,957	44.4	54.2	63.1	26.3	22.2	16.5	25.7	21.1	18.1	19.4	15.2	12.9	8.9	7.2	6.0	1.6	1.9	2.2	37.6	37.8	36.2	1,350	18.2	47.8
Tech Mahindra	651	REDUCE	80,671	1,786	124	65.1	65.9	71.2	(0.1)	1.3	8.1	10.0	9.9	9.1	8.9	8.2	7.6	2.2	1.9	1.7	0.3	0.3	1.5	26.3	22.1	20.8	720	10.6	5.1
Wipro	438	ADD	1,073,625	23,774	2,454	21.6	24.2	27.5	14.5	11.9	13.8	20.3	18.1	15.9	15.1	12.8	10.8	4.5	3.7	3.2	1.0	1.2	1.4	24.3	22.5	21.6	525	20.0	13.7
Technology		Attractive	5,671,631	125,590					17.3	17.1	16.2	21.9	18.7	16.1	15.9	13.0	10.9	5.8	4.8	4.0	1.7	1.6	1.8	26.3	25.7	25.1			
Telecom																													
Bharti Airtel	371	REDUCE	1,407,770	31,173	3,798	15.9	19.7	24.5	(32.6)	23.9	24.1	23.3	18.8	15.1	10.1	7.8	6.3	2.9	2.5	2.1	—	—	—	13.3	14.3	15.3	345	(6.9)	37.3
IDEA	67	REDUCE	219,932	4,870	3,300	2.4	1.2	2.6	(11.2)	(48.9)	107.7	27.5	53.7	25.9	9.4	8.2	6.6	1.8	1.7	1.6	—	—	—	6.9	3.5	6.8	55	(17.5)	5.2
MTNL	45	SELL	28,287	626	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(4.3)	(4.9)	(5.3)	(0.3)	(0.4)	(0.4)	0.3	0.3	0.3	—	—	—	(6.1)	(5.7)	(5.5)	35	(22.0)	1.1
Reliance Communications	89	SELL	189,688	4,200	2,133	6.9	7.9	11.3	(65.2)	15.0	43.6	13.0	11.3	7.8	7.8	7.0	5.8	0.4	0.4	0.4	—	—	—	3.3	3.7	5.1	90	1.2	25.9
Tata Communications	220	REDUCE	62,572	1,386	285	15.2	15.7	15.9	8.2	3.5	1.5	14.5	14.0	13.8	6.7	6.3	6.0	0.9	0.8	0.8	3.4	3.9	4.1	5.5	5.5	5.4	225	2.5	2.2
Telecom		Cautious	1,908,248	42,255					(42.1)	17.0	32.1	23.6	20.1	15.2	9.6	7.7	6.3	1.5	1.4	1.3	0.1	0.1	0.1	6.6	7.1	8.6			
Utilities																													
Adani Power	113	REDUCE	246,449	5,457	2,180	2.4	15.2	16.8	200.4	544.8	10.5	48.0	7.4	6.7	33.8	6.6	4.8	3.9	2.6	1.9	—	—	—	8.5	41.6	32.0	120	6.1	2.8
CESC	275	BUY	34,370	761	125	37.7	42.5	51.3	9.1	12.7	20.8	7.3	6.5	5.4	5.3	5.7	5.5	0.7	0.7	0.6	1.8	1.9	2.2	10.5	10.7	11.5	440	59.9	0.7
JSW Energy	71	SELL	116,358	2,577	1,640	5.1	7.6	5.9	12.9	47.6	(22.0)	13.8	9.4	12.0	14.1	6.6	6.0	2.1	1.7	1.5	—	—	—	16.2	19.9	13.2	70	(1.3)	1.6
Lanco Infratech	34	BUY	74,804	1,656	2,223	3.1	4.9	5.1	44.5	59.8	3.1	10.9	6.8	6.6	11.2	7.4	7.3	1.7	1.3	1.1	—	—	—	17.9	22.0	18.1	65	93.2	7.8
NHPC	25	BUY	303,213	6,714	12,301	1.5	1.7	2.1	(19.4)	15.6	20.0	16.5	14.3	11.9	12.4	9.8	8.2	1.1	1.1	1.0	1.6	1.9	2.3	7.1	7.8	8.9	28	13.6	3.1
NTPC	171	REDUCE	1,411,211	31,249	8,245	11.0	11.9	12.7	5.3	7.4	6.8	15.5	14.4	13.5	12.8	11.8	11.1	2.0	1.9	1.7	2.2	2.1	2.2	13.7	13.5	13.3	200	16.9	7.6
Reliance Infrastructure	585	BUY	156,483	3,465	267	60.8	70.8	84.0	(1.9)	16.3	18.7	9.6	8.3	7.0	7.2	5.5	4.2	0.7	0.6	0.6	1.6	1.8	1.9	9.1	10.7	12.8	1,030	76.1	37.7
Reliance Power	113	SELL	315,992	6,997	2,805	2.9	4.0	2.5	0.1	38.4	(36.7)	39.4	28.5	45.0	228.9	49.6	19.4	1.9	1.8	1.7	—	—	—	5.2	6.6	4.0	115	2.1	10.4
Tata Power	1,233	ADD	304,310	6,738	247	70.7	84.4	110.6	11.3	19.4	31.0	17.4	14.6	11.1	12.4	11.6	8.4	2.2	1.9	1.7	1.1	1.2	1.4	13.0	14.0	16.2	1,415	14.8	8.3
Utilities		Cautious	2,963,190	65,615					7.3	31.4	8.2	16.8	12.8	11.8	15.2	10.9	9.0	1.7	1.6	1.4	1.4	1.4	1.6	10.3	12.3	12.0			
Others																													
Carborundum Universal	257	BUY	24,002	531	93	17.8	18.0	22.1	62.9	1.3	23.1	14.5	14.3	11.6	9.3	8.4	6.9	2.9	2.5	2.1	1.5	1.5	1.8	21.4	20.0	20.9	300	16.7	0.2
Havells India	390	ADD	48,662	1,078	125	23.2	28.9	32.0	278.2	24.5	10.7	16.8	13.5	12.2	11.2	8.9	7.7	7.1	4.8	3.5	0.6	0.7	0.8	52.1	42.4	33.3	425	9.0	3.1
Jaiprakash Associates	83	BUY	183,458	4,062	2,214	5.5	5.8	5.8	214.7	5.2	(0.3)	15.0	14.3	14.3	11.5	9.8	9.6	1.8	1.7	1.5	—	—	—	13.2	12.3	11.1	135	62.9	29.9
Jet Airways	470	BUY	40,614	899	86	0.2	31.6	70.8	(100.3)	16,858	124.2	2,527.4	14.9	6.6	9.1	7.5	5.9	2.3	2.0	1.6	—	—	—	0.1	14.6	26.5	650	38.2	14.2
Sintex	178	SELL	48,470	1,073	272	17.0	19.2	20.3	40.2	13.4	5.7	10.5	9.3	8.8	8.2	7.3	6.4	1.9	1.6	1.3	0.7	0.8	0.8	17.9	16.9	15.1	170	(4.6)	6.1
SpiceJet	43	BUY	17,248	382	403	2.4	4.2	5.9	(4.2)	73.5	39.5	17.6	10.1	7.3	13.4	10.1	7.2	5.5	3.6	2.4	—	—	—	(65.3)	42.9	39.5	65	51.9	3.4
Tata Chemicals	359	REDUCE	87,220	1,931	243	26.8	35.4	44.2	1.5	31.9	24.8	13.4	10.1	8.1	6.4	4.9	3.9	1.6	1.4	1.2	2.6	2.6	3.3	16.9	19.3	—	370	3.2	3.1
United Phosphorus	168	BUY	77,417	1,714	462	12.4	17.5	20.3	4.0	41.5	15.9	13.6	9.6	8.3	8.1	5.5	4.7	2.1	1.8	1.5	1.2	1.8	2.1	17.9	19.7	19.5	220	31.1	4.8
Others			527,091	11,672					124.2	28.2	19.1	15.2	11.9</																

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